

# the Freeman

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- A Ford Is Not a Mango** **Vaughn C. Nystrom** 3  
Those who would wantonly pluck and redistribute the fruits do not understand the process of production.
- All These Rights** **Charley Goodman** 9  
Concerning the nature of human rights and how best to secure and exercise them.
- The Tyranny of Minorities** **Russell Shannon** 17  
It is no service to the public welfare when specialists promote their interests through government intervention.
- Medical Care and Malpractice Insurance** **Bettina Bien Greaves** 21  
Study questions and bibliography for the 1977-78 nationwide high school debate topic.
- Who Guards the Guardians?** **Kenneth McDonald** 32  
When the growth of a bureaucracy passes beyond control, it becomes a law unto itself.
- World in the Grip of an Idea**  
**13. World War II: The Socialist**  
**Conflagration** **Clarence B. Carson** 38  
The fury of people whose civilized restraints had been weakened and cut away by ideology.
- Zoning Laws, the Housing Market**  
**and the Ripple Effect** **George C. Leef** 51  
Freedom in land use is the alternative to the potential waste, inefficiency, inequity and manipulation of zoning.
- Reasoning in Economics** **Edward C. Facey** 59  
How the science of human action grows logically from man's nature as a rational being.
- Book Reviews:** 62  
"Builders of the American Dream" by James K. Fitzpatrick

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# the Freeman

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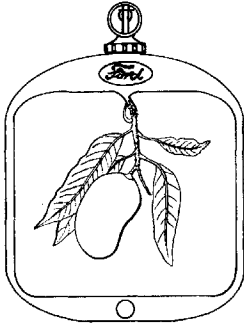
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# A FORD IS NOT A MANGO

THE reaction of authorities (and, indeed, the public at large) to the antics of the looters during New York's recent blackout betrays an attitude which, if it becomes widespread, will sap this country of everything that has made for economic success. Certainly, most people were shocked by the violence. Yet, when pressed, many revealed feelings of sympathy toward looters: "Well, it was their turn to get the goods." "Many of those store owners were rip-off artists anyway." "The poor have justly taken from the rich."

In order to justify this kind of thinking, one must view economic systems, or rather the goods pro-

duced by such systems as items that are "given." That's to say, economic goods are simply fruits to which no effort is applied; they simply *are*. Ludwig von Mises rightly refers to such an attitude as the "static mentality."<sup>1</sup> Like the child, such persons see the world as a huge playpen, baubles dancing wonderfully before their eyes solely for their pleasure. And like the child, they give no thought whatsoever to the "whence" of these toys—only the fact that they "are."

Static mentality, then, fails to see that wealth is created by man through his efforts in the economic realm. That store in the South Bronx of New York burned down by looters didn't sprout up like an oak tree. That store was built—built by someone who applied his labor and

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his capital to shape something that would be of service to him and, at the same time, to others.

The problem doesn't end with people who, because of their lack of education, may be forgiven for seeing the world this way. It infects the ranks of professionals and scholars who should know better. And because higher-ups see things so, many high level policies—which affect all of us—get their “spirit” from this world view. I hope to show here how this inability to see that wealth must be created has already led us down some dangerous paths.

### **Property Rights Endangered**

If you see all the world as one big paradise, with marvelous goodies here and there, with no thought on your part where these goodies came from, you'll probably—and logically, at that—conclude there's an awful lot of disparity among owners and the things they own. And since justice flourishes among the pristine, you'll also conclude there's reason to shuffle these goodies about until a more equitable arrangement is reached. (Or, if you're not justice-minded, you may opt for mere confiscation.) You'll need a legal arm to effect this shuffling, and so the government (always ready to oblige), according to your plan, will straighten the record. (Of course, the only thing more arbitrary than the original distribution of goods

will be the final arrangement, courtesy of bureaucratic officials. But that's O.K. Nobody really had a right to them in the first place. They were there for everybody.)

This isn't solely an error of socialists and communists. How many times have you heard the bromide, “We're not interested in property rights; we're for human rights”? There's a good chance that an elected official representing you at this very moment would give his life's blood to defend that statement. The fact is, human rights cannot exist in a vacuum. We are men composed of body and spirit; and for freedom to exist in the material arena, we must have inviolable rights to property. If these rights can be abrogated, we simply are not free.

Yet these property rights must not be viewed as arbitrary, of the who - got - to - the - mango - tree - first type mentality. They will exist because the owner exerted himself in a way that enabled him, acting as a free person among other free persons, to produce. And his possessions will be none other than manifestations of that personal production, either his own, or what he was able to obtain through exchange in the market place.

Seeing property as an arbitrary distribution of what “is,” is only one step away from arbitrarily redistributing it according to some pre-

conceived notion of equity, thereby destroying all property rights; and two steps away from deciding what will be done with the property, thereby disposing of all human rights.

### Accent on Redistribution

A random glance at the *New York Times* brings ample proof that "those who know" no longer consider production to be the economic kingpin. No, this wealth about us is here, given. We need only concern ourselves with how best to redistribute it. Thus, Soma Golden, business writer for the *Times* writes: "I think we have got to confront the problem of income distribution, of somehow building a mechanism whereby we can insure that people do get *what is regarded* as their fair share. . . ." (My italics)<sup>2</sup> That phrase "what is regarded" is loaded with implication: Just who is it who will "regard" what is fair? Doesn't she really mean "what is decreed"? Or "what is legislated"? Freedom becomes a shaky affair the moment some one person or group can decide "what is fair" in matters of distribution.

In less direct ways, sometimes in frighteningly subtle ones, this attitude pervades our media. Irving Howe, a Professor of English at City University of New York, gives us this piece of wisdom: "A distinguished economist . . . offers us the

verity that there is no free lunch—to which I, a non-economist, reply: But of course there is! If you *have too much provision* and I not enough, then when you *yield* a little, I may indeed have a free lunch." (My italics)<sup>3</sup> The key word is "have." Such persons no longer ask why someone "has." He just does, they figure. The middle classes, according to this view, are born, not only with silver spoons in their mouths, but also with nice clothes on their backs, and two cars in their garages. They have. The fact is, these things were created, produced, sweated for. But that is not to say that someone *has "too much."* Of course, what the economist means in this case is that someone has made an effort in order to provide that lunch for Mr. Howe. And since that effort has value on the market, the lunch indeed was not free.

When the government engages in redistribution, taking the action away from the personal sphere (you and me), the complexion drastically changes. The insidious feature of it all is that we don't see just who it is we're taking from. Perhaps if the Irving Howes and Soma Goldenes were made to see the production processes as they really work, and then made to take first-hand from someone who had just produced a good, they might have second thoughts about asking all the "haves" to "yield a little."

A BELIEF, an honest belief, that they are under the real influence of benevolence, sometimes leads men to conduct the most intrusive and tyrannical. Power is usurped for the purpose, it is supposed, of doing good. . . . A man fancies he knows what is best for other men. . . . He is thoroughly persuaded that such and such a thing is good, and being good, he will compel others to receive and adopt it. . . . Yet despotism never takes a worse shape than when it comes in the guise of benevolence. . . . Under the shadow of this fallacy, vast masses of misery have been poured out upon the world.

JEREMY BENTHAM, *Deontology*

### Spending Rather than Saving

Serious students of economics understand the importance of savings and investment to the economy's health. An odd bit of logic accompanies the static mentality with regard to these very areas. Because economic goods are viewed as eternally present, any slack in the economic system—recessions and the like—must be caused, not by malinvestment, but by a lack of consumer spending! So, when things slow down, the "experts" recommend jolts of "purchasing power" via government programs. You'll hear otherwise quite intelligent people assert that the Great Depression of the Thirties was caused by a phenomenon they call "underconsumption," the implication being that the goods were there, but the consumers hadn't enough money to purchase them!

Vance Packard's *The Wastemak-*

*ers* roundly criticizes Big Business for carelessly using resources for profit alone. But the point missed by Mr. Packard and others is the businessman's constant reminder that resources are scarce. This he sees reflected in resource prices, which become his costs. He knows their value. The businessman "spends" only when he believes there are others who'll be willing to "spend" in turn—willing to buy the products of his business.

Not so with those irresponsible planners who don't know the value of resources. Seeing all items about them as ever-present, they are quite willing to "burn off" these items to keep the economy rolling. Such ignorance of the investment and savings factors is well described by Dr. George Reisman in an article, "Production versus Consumption," in *The Freeman* (October 1964).<sup>4</sup> In this essay, Dr. Reisman describes a

particular form of the static mentality he calls the "Consumptionist." This fellow feels man's needs are irrevocably limited, and so the economy remains always on the verge of running down. He fears consumers will become sated and stop spending, thereby bringing the economy to ruin.<sup>5</sup>

Without going into the rationale of consumptionist thinking, the implications are obvious. The oft-cited quote of J. M. Keynes, in which he advocates digging holes, burying I don't remember what, redigging the holes, paying the workers, all in order to gain purchasing power, shows the depths to which such thinking can bring us. All government make-work schemes—and indeed *most* government employment—consists in spending without producing, spending without investing. In fact, the whole Keynesian system sees investment and savings as "leakages," as virtual flaws in the continuous flow of ever-increasing spending by consumers.

Of course, without investment any economy will die. New capital is needed to replace worn-out capital, and to supply the muscle to undertake new economic ventures—all in an effort to satisfy man's limitless desires. This capital can only come about when someone—not spends—but *withholds* spending! He saves. He willingly refuses to exchange his purchasing power for immedi-

ate gratification in order to increase gratification at some future date.

The 19th-Century philosopher, James Mill, rightly points out: "A nation's power of purchasing is exactly measured by its annual produce." Not by its government printing presses; or government make-work; or welfare spending. As long as the deification of spending goes on; as long as capital is eaten away by confiscatory taxation, spending without corresponding production, or plain looting; as long as people don't see that what is here is a result of saving and investment—we're heading down the road to destruction.

### **A Ford Is Not a Mango**

A few years ago I had the opportunity to go to Hawaii, one of the tropical paradises dreamed of so often in our folklore. While there, I noticed the trees, unlike the stingy maples and sycamores of my home town, were laden with fruit—edible fruit! A friend offered me a mango. Just like that. Plucked from the tree one minute, eaten the next. I had never had anything quite so "free" before.<sup>6</sup> I had only thought of fruit as the end-product in a long line of economic exchanges, the last being my purchase of it in the neighborhood market.

Then I began thinking how many people, in childlike fashion, see the world as one big mango tree, ready

for plucking by whoever gets there first. True, it may certainly appear so when we go to large department stores and see the wares displayed, ready as it were, for plucking. But if you think that's all there is to it, you've missed everything. The many processes behind this final display, all the technological, marketing, and financial decisions that went into *each* product's formation, are too complex for any individual or group to comprehend. As Mr. Leonard Read has pointed out, none of us knows precisely how to make a plain old lead pencil. This most modest of instruments requires a combination of specialized skills beyond the ken of any one person. Multiply that combination of pencil-skills by the countless numbers of items available to business and consumers and you've an idea just how complex is our technological system of production. Then throw in marketing (getting the product to the consumer) and finance (short- and long-term funding for each operation)—and you've at least an inkling of the economic system we're dealing with.

To assume that all this will go on indefinitely, with little or no thought given to the nourishment of these processes, is to close one's eyes—like a child—and just *wish* the best of all possible worlds into existence. The harmony we see in the market place around us is not the

harmony of a mythical tropical paradise where abundance is effortlessly ever-present. Rather, it is a balance attained—from the recognition that men are free to own property, to produce, and to exchange freely their production in the market place. And because the free market exerts such harmonizing influences on the economic process, you and I are able to purchase at outlets very near to our homes items as diverse as TV's, food, imported wine, antiques, footwear, Fords—and yes, mangoes. Ⓔ

#### —FOOTNOTES—

<sup>1</sup>Ludwig von Mises, *Planning for Freedom* (South Holland, Illinois, Libertarian Press, 1974), p. 146.

<sup>2</sup>Soma Golden, "Self-Interest Stymies Inflation Fight," *New York Times* (Business Section), September 22, 1974, p. 1.

<sup>3</sup>Irving Howe, "Balanchine and Larchmont," *New York Times*, November 27, 1976, p. 23.

<sup>4</sup>See Dr. George Reisman's *Essays in "Euclidean" Economics*, unpublished (on reserve at St. John's University in Jamaica, N.Y.). I am indebted to Dr. Reisman for clarifying much in terms of free-market economics.

<sup>5</sup>Harry Browne, in his *How You Can Profit from the Coming Devaluation*, proves quite neatly that it actually benefits the remaining members of an economy when people "bury" their purchasing power, as long as they keep on producing.

<sup>6</sup>Actually, the mango wasn't "free" at all. Human action, however insignificant, was involved in obtaining the fruit.





# ALL THESE RIGHTS

HUMAN RIGHTS, civil rights, equal rights, worker's rights, children's rights, victim's rights, criminal's rights, gay rights. . . .

From President Carter's concern with human rights worldwide to the debated outcome of the Miami anti-gay vote, the issue of rights dominates the headlines. Even when the main subject is something else, such as disarmament or drugs, the rights question often hovers alongside.

From crib to casket, folks are claiming special rights to improve their situations. All these rights, regardless of worth, parade in garments of respectability—free choice, human dignity, Constitutional

guarantees. A common attitude toward rights seems to have extended Voltaire's famous freedom-of-speech statement to proclaim, "I disapprove of what you say *or do or are*, but I will defend to the *courts* your right to say *or do or be it, any time or place.*"

That sounds reasonable and tolerant enough, and one can understand why so many accept such a creed. But is it really valid? Is everything promoted as a right really right?

In the name of human rights, we suffer pornography and obscenity, we relax justice to the criminal and refuse it to the victim, we prey on ability and willingness in order to subsidize indolence, we place appearance ahead of qualifications in jobs. Boys cannot be boys, at least on a little league team, and a teacher

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Mr. Goodman's interest in human rights was aroused at Mt. Hood Community College in Oregon where he recently earned an Associate Degree in Social Science.

whose school receives Title IX funds dares not use traditional grammar in describing an either-sex situation.

### **The Nature of Rights**

What are rights, anyway? The goose we squeeze to get our gilded eggs of gratification with the least restrictions and the least bother on our part? Or do rights have a basis we are overlooking? Most statements of rights, such as the United Nations' "Universal Declaration of Human Rights" and the Helsinki Accords, assume rather than establish that certain conditions are desirable for mankind. It might help us, however, to understand *what* our rights are if we understand something of *why* they are.

History reveals at least two traditions, which merge and part like flocks of starlings, flowing into today's practices. One of these perceives rights to mean human action free from restraint. This route has been marked by such names as Rousseau, Freud and Sartre, in conjunction with the Darwinian influence. Though doubtless not themselves endorsing all the current manifestations of rights, men like these opened the way to our culture of freethinking and freeliving. Contrary to, but often overlapping this tradition is another which has been marked by such torchbearers as Cicero, Locke and Jefferson. Parallel-

ing our Christian heritage, it holds the light for Divinely endowed unalienable rights within a framework of natural law.

From this brief history, we can describe two general views held on rights today. In both cases, rights are considered to exist outside society and generally beyond its legitimate interference. In contrasting them, we are stressing their variance in certain moral areas more than their general similarity. Both, for instance, would acclaim our Bill of Rights, though they would disagree on exactly what other rights are "retained by the people" according to Article IX. Further, they both mistrust the machinations of highly centralized government. However, the areas of difference are great, as is the impact that leaning one way or the other can have on our society and government.

### **The Group or the Individual?**

The former view claims that whatever a person does, short of physically harming another—his "own thing"—is okay, regardless of consequences. Rights constitute the de facto protector of his particular interests. The individual or group concerned is supreme. Existentialist free will is the guide. In fact, "freedom" is a more accurate word than "rights" to carry the idea, except that the two words are more or less interchanged in actual use. Freedom

in this sense is not the lodestar we generally think of when we talk of our American liberties.

This view has permeated our culture, for both good and bad, everywhere we turn. Two prominent subcultures that bear its stamp are worth mentioning. One is the hippie way of life—no comment needed. Another concerns the welfare state and many of the rights claimed thereunder. If one has a *right* to whatever life style he desires, shouldn't society have to support that life style if the individual can't or won't? The conclusion may not follow the premise in logic, but it seems to in modern social welfare.

The second view is superficially similar, yet deeply different. It looks on rights as man's natural and proper defense against an aggressive person, society or government. The importance of the individual or group over the state is stressed, but the supreme, guiding position belongs to God or some concept of divine principles. A good sermon topic, no doubt, but the application ranges beyond pulpit and pew. So, without miring down in ethical philosophy or hanging up on perversions, such as slavery or exploitation, wrought in the name of this view, we ought to pursue it a bit. Later we can tie the two positions together.

If we study the subject, we probably will conclude that rights cannot stand alone or depend upon individ-

ual preference, else rights would be in constant conflict. And if rights can be in conflict, any discussion of them is about as conclusive as debating whether fried apple pie tastes better than marmalade on rye toast. Rights would mean either every man for himself or everyone subject to arbitrary government regulations. Seeming conflicts, such as ownership of private property versus the power of eminent domain, indicate that rights may not always cover as much as we think. Much of the history of civilization has been written by the "divine right of kings" as opposed to the rights of citizens. That divine right was really no right at all but either an assumption or resignation of power. If, on the other hand, we opt to talk of "greater and lesser" rights, we run into a similar logical impasse. A lesser right is no right at all, if it cannot be implemented. Sorry, but we must probe yet deeper.

### **The Aspect of Responsibility**

The dictionary defines rights as "that which a person has a just claim to . . . by law, nature or tradition." Good, but incomplete. We may expand this statement to say that rights concern the way each of us may expect to be treated by others and the way each of us must treat others. Unfortunately, we often forget the how-we-treat-others aspect. Responsibility, that is. I have a

right to work, surely. But not at any job, at any wage, on any terms. If my work habits are unacceptable to my boss or my life style downgrading to his reputation, my right to work cannot annul his right to set reasonable conditions of employment. My right to work at a particular job involves my recognition of the manager's requirements. In turn, it is his responsibility to honor my right to market wages and humane treatment. Another responsibility we have—not to be confused with the welfare state—is toward those who are truly disadvantaged or disabled through no fault of their own. (This does not mean we are obliged to bail out those who will not accept responsibility for the results of their own ill-chosen actions.)

Thus, rights and responsibility go together. But that is not all. While there is no divine catalogue of rights and attendant responsibilities, there are—however much we pick and fuss over them—universal standards of moral conduct which encompass rights and responsibilities. In the West, these standards are generally derived from our Judeo-Christian heritage. Not nose-in-the-air superpiety, that is, but everyday respect for right living.

Does this correlation mean that every right is tied to a moral law? Not at all. Think of a riverboat steaming up the turbid Missouri between shoal and shore, guided past

dangerous ground by marker buoys. Similarly, the channel of rights is indicated by the buoys of morality. In this second view, rights sweep from shoal to shore but cannot transgress moral precepts in either the individual concerned or those around him. In other words, no one has a divinely unalienable right to do what is morally wrong or to force another to accept a moral wrong.

### **Adherence to Moral Law**

Dear to us in the United States are those truly unalienable rights of life, liberty and the pursuit of happiness (or property, as formerly stated by Locke). These rights are not written in the sky or guaranteed by history. Rather, they are rights because they are morally justified of themselves, and the diminishing of them, whether by intruder, king or politician, is morally wrong.

Which view of rights, apart from their similarities, should guide American law and culture: freedom from restraint, or adherence to moral law? If we're reasonable and honest, we'll probably have to answer, albeit grudgingly, "Some of both." Regardless of our own preference, we can hardly prevent people from committing offensive acts that do not involve others. Possibly we commit some on occasion ourselves. Thus, in the first sense, a person has a right—that is, freedom—to do wrong; he may curse his Maker

though it warp his soul, and the law cannot touch him; he may abuse his body or pervert his mind. But—and here is the fragile, all-important balance point—there is no right, by the second view, to force others into recurring or avoidable contact with or support of one's personal vices, be those vices drug addiction, greed or laziness. The man on the street has freedom to smoke, as long as he is on the street. But he may not enter a private house puffing nicotine without the owner's consent.

It might be well here to interject a related thought. A good deal of what we toss into the rights stew doesn't concern rights directly but involves personal preference and choice. Many of the energy and ecology issues fit here. Some favor more conservation; others favor greater utilization. Neither side has an inherent right to have its way, just as neither has a right to exploit the situation at the unjust expense of others. But we all have the right to participate in the discussion and to enjoy the resulting benefits. In other words, we sometimes claim a right to a certain course of action or result when we would better claim a right to be in on the action.

The current uproar over homosexuality illustrates some of the pertinent rights issues. There are actually two efforts at stake in the demonstrations and political and religious activities of gays. The

equal-rights effort is well-publicized. Related, but less mentioned, is a bid for public approval. Many heterosexuals would not only extend the rights but also the approval. Are they correct? Should we remove all legal barriers to full acceptance of homosexuality?

### **Whose Rights?**

Two important philosophical and practical factors, neither of which has been clearly distinguished, are swirling in the gay-rights eddy. The first of these concerns the question: *Whose* rights are being violated, anyway? The second revolves around the larger question: How do we in our American society define and determine rights? Let's look at them in turn.

The increasingly vocal homosexuals and various partisans have scored a critical point by noting an apparent inconsistency in the opposition's stance. They claim that those of us who abhor homosexuality react by trampling on the rights of gays in unrelated areas, especially jobs and housing, as in the Miami voter repeal of an anti-discrimination ordinance. Is the point valid? If so, only because we have not blocked it as we should and can.

How do we block it? First, by recognizing that everyone has the same basic rights, else rights are meaningless. A murderer has the same rights as a choir girl, save as they

pertain to punishment for the former's crime (in which case he forfeits certain of his rights for having deprived his victim of the right of life).

The second block is more striking. A gay now has a right to any housing or job he wants, as long as those in charge accept him (or, to be sure, if they don't know the situation). But if he has a right to *whatever* housing he desires, do not you and I, as potential sellers, landlords or neighbors, lose the right to control our property according to our own standards? His right would then clash with ours—an impossible situation. The same applies to jobs, as demonstrated in the sensitive area of education. A teacher is regarded as an exemplar as well as a communicator. If a declared gay is allowed to teach, he—and the school board—is, in effect, telling the students, as well as parents and others who support the school, that homosexuality is acceptable. A recent court decision in Washington state held that homosexuality is a legal basis for dismissal from a teaching position.

A recent Harris poll indicated a 54-28 percent majority of Americans oppose job discrimination against gays generally. However, a majority also would exclude them from certain positions, such as teaching, counseling and psychiatry. But the poll did not cover one fundamental

point: Who can fairly decide when a gay can or cannot be hired, if not those responsible for the position?

One more item merits comment before we proceed to the second factor posed by this gay-rights discussion. Homosexuality, as both Scripture and tradition note, is an especially repulsive act. The above arguments regarding jobs and housing, however, apply not only to this act. Drunkenness, drug abuse, wantonness, even slovenliness and indolence are among undesirable habits that should not be allowed, in the cloak of rights, to damage the actual right of employers, landlords, neighbors or the general public to control what is theirs. On the other hand, neither may the cloak of rights be donned to cover the prejudice or greed of the self-righteous.

### Who Defines Rights?

Now, the second factor: who defines rights in a society? Though we be convinced that rights and morals are transcendent, laws and practices governing them are yet made by man through a constant kneading and pulling of both rights and freedoms. Sometimes the decisions are made by rulers, or interest groups, or mobs, or those with muscle enough to enforce their claims. But, in democratic America, citizens must choose the guidelines through legal processes. As long as the American Way yet works, what we

decide individually is eventually reflected collectively in our laws and courts. This is true, be the result fair or ill.

However—score the point in red—the determination is not necessarily made by majority will, but by those who participate in the process. This fact is well illustrated by the vocal pro-and-con dispute over homosexuality; each side is making its influence felt. To be counted, one may yell and demonstrate his demands, or he may logically and respectfully vote and otherwise speak out. Both methods work, but the more we can do the latter, the more likely acceptable the results. Either way, as long as we are a democracy, we will be governed by the consent of the majority of those who take part. While this method does not guarantee either true rights or morals, it provides the world's best working ground for them.

So far we have been scanning the flood tides of this rights turmoil. By now, perhaps, we are beginning to discern some flailing arms and distraught faces washing about. Who are these? Why, these are the people most deprived of their rights. These are the millions of perplexed Americans who prefer to support themselves, obey the laws, pay their taxes and lead moral lives. They are not the squeaky wheels or the squawky takers, for they are not always seeking special privileges or

favours—and possibly not participating as they should. As a result, they are made to support those who will not support themselves: they are often bound by laws they consider unjust, while others flout justice; they are slapped in the face by misuse of tax money; they are forced to pay homage to those who care little for morality.

### Hard Questions

Chances are, this is the unhappy position in which we find ourselves. But before we sigh and tighten down our haloes, maybe each of us should ask himself a question: do I ever add to the problem of right and rights in any way? Do I ever:

- lie about my kid's age so he can get a free bus ride?
- call in sick in order to get a day off?
- go on unemployment although I could actually get work?
- pay my workers less than they might otherwise earn in open competition?
- sue a manufacturer when I'm hurt by my own negligent use of his product?
- take advantage of my neighbor or ignore his need?

If I indulge these and other like acts, outwardly lawful, am I not betraying the 3 R's of rights, right and

responsibility? Legality and ethics do not always make the same track: laws may sometimes allow or encourage dubious behavior. Since Watergate, there has been a resurgence of moral indignation in America—lopsidedly centered on the affairs and behavior of public officials. Can't we see that morals touch every aspect of all our lives, private as well as public, before God as well as man?

In a free society, peace, decency, diligence and independence are ever on the defensive. And those who would devour these noble traits are always on the prowl, like coyotes around a bleeding sheep. Because of their din, we often wonder if they're right, and we're too narrow-minded in honoring our convictions.

Not so! People cannot grow by commonly accepting or approving the baser acts of man. If we constantly alter our laws and social standards to accommodate every unseemly human activity, we are flinging ourselves onto an endless downhill mud slide. Self-control, whether in attempting something worthwhile or avoiding something downgrading, is an integral part of greatness. When laws and rights become independent of a definite and transcendent morality, greatness in America will have disappeared—paradoxically strangled by a perversion of the very forces that created this nation. Listen to the confident

tones of the Virginia Bill of Rights, Section 15:

... no free government, or the blessing of liberty, can be preserved to any people but by a firm adherence to justice, moderation, temperance, frugality, and virtue, and by frequent recurrence to fundamental principles.

We should, surely, always demonstrate tolerance and understanding toward those of questionable behavior. If a holy God lovingly accepts penitents, we can scarcely do less than try to lift the fallen, always distinguishing between the doer and the deed. After all, we may once have been in the same ditch. But, by what surrender to decadence dare we muddy our proud flag by demeaning the very rights it flies to represent?

As Columbus determined to sail west, and opened a new world, we must set our own conscionable course so we may renew our world. This course requires an overall system of rights that corresponds to moral values while allowing freedom of personal choice. We may not agree on all the particulars, but we can agree on the direction.

Do we want to progress as a people, to advance culturally as well as technologically, to build a healthy and meaningful society? If so, we will engage our responsibilities willingly, basing them on a true union of right and rights. ☉



# The TYRANNY of MINORITIES

ONE of the basic premises underlying a free market economy involves voluntary exchange. Continuing trade between two individuals or groups must be mutually beneficial; each party expects to improve its well-being as a result of the transaction. Were that not so, trade would not continue, for who would voluntarily and knowingly make himself worse off?

Furthermore, such trade enhances opportunities for specialization, the so-called division of labor. As Adam Smith pointed out a while back, this process, too, improves the wealth of nations by increasing productivity.

To the extent that any agency limits specialization and trade by closing markets or seizing income, there is a high risk that a reduction

in social well-being will follow, for voluntary exchange is hindered and disrupted. Can we expect, then, that we are apt to get a political structure that will minimize such disruptions?

A democratic political system may be preferred to a monarchy or oligarchy on the ground that it is less likely to reduce social welfare. Presumably, the collective intelligence of individuals, as gathered and expressed by their representatives, greatly exceeds that of either a single individual or a small group of people.

In America we talk much of our devotion to both democracy and free markets. Indeed, just recently, in 1976, we celebrated the bicentennial of the intellectual origins of both, as represented by our own *Declaration of Independence* and Adam Smith's *Wealth of Nations*. Yet we are also often deeply disturbed by the preva-

lent tendency of our government to subvert the market system.

Government, of course, is not some malicious, autonomous being, a demon to be feared and exorcised. Just like the market, it is a vehicle for expressing our desires and achieving our goals. But now the element of compulsion intrudes. Now one party's gains tend to be at another's expense. Exchanges cease being voluntary and mutually beneficial.

### **Serving Special Interests**

Why do such intrusions occur? They are largely, if not solely, the result of efforts by special-interest groups. That thesis is certainly neither novel nor particularly shocking. But its familiarity should not breed contempt—much less content. A simple but vivid illustration will help provide some insight into the matter. It involves government subsidies for sugar farmers.

There are now in the United States about 20,000 sugar farmers.<sup>1</sup> Recently, Congress agreed to support the price of sugar at 13½¢ a pound.<sup>2</sup> Since sugar had been selling for about 10¢ a pound, Department of Agriculture officials estimate that American consumers will pay an additional \$660 million for sugar.<sup>3</sup>

These substantial benefits will be spread over relatively few producers and processors, so each one stands to gain a considerable amount. Their

enthusiasm for such legislation is understandable. (If all that increase goes to sugar farmers themselves, on the average each one would stand to glean an additional \$30,000 in net revenue; refiners, however, are apt to get a share.)

There are other interested parties who will also benefit. Companies who make sweeteners from corn need a higher price to be competitive with cane and beet sugar; they took an active interest in the proceedings of Congress.<sup>4</sup> Besides these, there are also many nutritionists who despair of our sugar intake and the health problems it may provoke. They may likewise take delight in any price increase, for it will discourage consumption.

Such matters aside, however, consider the financial impact of such a subsidy on sugar consumers. The possibilities for spending that hard-earned \$660 million on other goods and services certainly are considerable. Why, then, was there not a great outpouring of outrage? Why were our legislators permitted to carry out such a massive transfer of wealth?

Exactly what does this policy mean to the average individual? Since our population is now about 220 million, the sugar subsidy of \$660 million works out to about \$3 per person. Figured another way: our average annual consumption of sugar is estimated at about 100

pounds.<sup>5</sup> Since the price-support program raises the price of sugar about 3¢ per pound, that also works out to \$3 per person. Thus, preventing the program will effectively raise one's disposable income by \$3.

### Counting the Costs

A letter to one's legislator denouncing the subsidy costs 13¢ for a stamp and a few pennies more for stationery. A post card costs even less. But as all students learn in their first economics class, cost is not simply money paid. Cost refers to opportunities foregone. And in a case such as this, these opportunities may be extensive.

An individual who writes a Congressman must be both reasonably articulate and informed. That means at the very least keeping up with the news—spending time and money subscribing to and reading newspapers and magazines and watching TV news programs. Furthermore, the letter itself takes time to write.

What does all this time, effort, and postage add up to? A legal minimum wage of \$2.30 an hour suggests that our time is, by and large, worth at least that much. For most people, in fact, hourly wages are much higher; for those people most apt to pay a keen attention to matters such as pending sugar subsidies, the hourly income is almost certain to exceed \$3.

In short, the full cost of notifying one's legislator about one's personal stand and inclination is apt to be more than the \$3 one expects to gain by preventing the sugar subsidy. It is simply not worth the trouble. In other situations, of course, the benefits of curtailing such legislation may very well exceed the cost: after all, many people *do* send letters to Washington. Nonetheless, the basic elements of the situation by now should be apparent.

Here we have a clear and simple case of the political system being used to subvert the market system and cause an overall reduction in our welfare. Specialization requires a market; if the free market is not adequate to provide a satisfactory income, then one may try to use the political system to improve it. But one then gains income by compulsion; the taxpayers receive nothing in return. Yet the populace permit such losses to occur, because they will lose even more by trying to prevent them.

Sugar is but one example. Others abound. Besides sugar, there are wheat, milk, and many other farm products which receive similar treatment. Likewise, the domestic producers of textiles, shoes, steel, television sets and other items have recently sought relief from foreign products.

To the typical consumer, the effect of individual quotas and subsidies

may be trivial. They mean just a few cents more for fabric—or a few dollars more for a TV set that sells for \$400. A total farm program costing as much as \$6 billion per year will cost an individual only \$30 in taxes. For a family of four, of course, that quickly adds up. Nonetheless, in a great many such cases, it is entirely rational for an individual to ignore what Congress is about to do and simply tend his own garden. For in a great many of those cases, it appears evident that his welfare will be reduced even more if he takes steps to protect himself!

### Eternal Vigilance

What remedy do we have? One is strongly inclined to endorse political candidates who are stalwart foes of such government intrusions. But they are hard to find. What's more, the advantages to legislators of supporting such special interest legislation are so great that one cannot reasonably expect them to be totally immune to such pressures.

Nor can the problem be alleviated by insisting that the government balance its budget each year. The damage is clearly done in such programs, even though the government may collect enough in tax revenue to finance the subsidy payments in full. In fact, in the case of tariffs, the government even stands to *gain* revenue from such programs, with no offsetting costs.

In short, it is a tormenting dilemma. Constitutional amendments which strictly forbid any and all government subsidies and trade restrictions may very well be the sole solution. Perhaps a public interest lobby will arise to advocate such amendments. But what likelihood is there of adopting them—or keeping them, once adopted? The combined efforts of those who stand to gain from such subsidies and restrictions may very well outweigh the moral fervor of those supporting such amendments. Unless such steps are taken, however, it appears inevitable that we will continue to have the scope of voluntary exchange reduced and our wealth and well-being continually eroded through the tyranny of minorities.<sup>6</sup> ☉

### —FOOTNOTES—

<sup>1</sup>"The Sugar and Cream Boycott," *Wall Street Journal*, April 8, 1977; "The Squeeze on Sugar Cane," *Business Week*, October 4, 1976, p. 32.

<sup>2</sup>Dan Morgan, "Corn Refiners Pushed Sugar Support Bill," *Washington Post*, August 10, 1977, p. A2.

<sup>3</sup>"New Plan to Subsidize Sugar on Early Basis is Studied by Carter," *Wall Street Journal*, August 22, 1977.

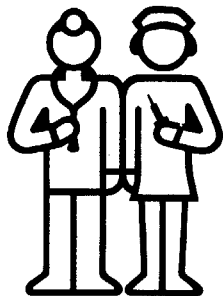
<sup>4</sup>Morgan, *op. cit.*, p. A2.

<sup>5</sup>Charles G. Burck, "The Tempest in the Sugar Pot," *Fortune*, February, 1977, pp. 106ff.

<sup>6</sup>The pioneering work in this area has been done by James Buchanan, Anthony Downs, Gordon Tullock, and others. For a summary of their views, and references to further reading, see James D. Gwartney, *Microeconomics: Private and Public Choice* (New York: Academic Press, 1977), Chapter 4.

The 1977-78 nationwide high school debate topic . . .

# Medical Care and Malpractice Insurance



DURING World War I, the federal government encouraged debating in the high schools as one way to promote support for the United States war effort. With a small grant of the taxpayers' money (\$50,000) packaged libraries of materials were distributed for "the promotion of open-minded, impartial study and discussions of such questions as government ownership and operation of the railroads, government control of prices. . . ."<sup>1</sup> In time, a nationwide high school debate program developed. Still today, under the auspices of the National University Extension Association, high school debate

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<sup>1</sup>W. S. Bittner, *The University Extension Movement*, U.S. Department of Interior, Bureau of Education Bulletin #84, 1919, p. 28.

coaches and speech teachers select a single topic each year for interscholastic debate competition across the country.

Practically all the high school debate resolutions are worded as positive proposals for some Federal legislation currently advocated by interested groups and/or being considered in the Congress. A list of the high school debate topics over the years reads like a list of the socialistic laws enacted during that time. Because of the debate format, however, students are eager to obtain materials against, as well as for, the proposals in their resolutions. To comply with requests from debate coaches and students, FEE assembles a debate packet each year, made up of a dozen or more article reprints, each explaining the free market position on some aspect of the current resolutions. Those for 1977-78 resolve that the federal

government guarantee or establish "national programs" of comprehensive health or medical care and malpractice insurance for health care professionals. Following is the explanation of the free market issues involved, as included in FEE's high school debate packet this year.

## STUDY QUESTIONS

IN any debate, the first step is to define clearly the terms in the resolution. Only after agreement is reached on definitions, may positive and negative debaters discuss the issues and implications of a resolution without the danger of being misunderstood.

\* \* \* \* \*

### 1. What would it mean to "establish" or "guarantee" a program?

Dictionaries clearly define the verbs "establish" (originate, found, institute, set up in business) and "guarantee" (undertake to do or to secure, assure the permanent existence of). Thus proposals that the federal government *establish* a program mean that the federal government itself would actually set it up, i.e., get it started. If the federal government were to *guarantee* a program, it *could* undertake the program itself, but it need not, for "guarantee" implies only that it do what may be necessary to assure

that the program is carried out. Thus, in either case, once a program had been "established," or provisions made to "guarantee" its continuation, actual operations could be delegated to others—private individuals and firms or governmental agencies and institutions.

### 2. Do U. S. citizens want more, better and less expensive health and medical care than now available?

Yes, of course they do—if we leave out of consideration those who refuse medicine and medical treatment on religious or other grounds.

Everyone who is not well, or thinks he is not well, would like to be healed quickly and painlessly in comfortable, luxurious surroundings. If this could be done simply by wishing on a magic lamp, wonderful! But dreaming of such miraculous cures is not realistic. To improve health and medical care takes the time, thought, savings, production, research and attention of countless workers and health care personnel.

Everyone connected in any way with health care and medical treatment would undoubtedly like to be able to give their patients better, more prompt and less expensive attention. This would surely give everyone concerned increased satisfaction. As fewer persons would be needed in health related professions, the demand for doctors, nurses,

health aides, hospitals, clinics, etc., would tend to go down and more people could be employed in different branches of production, supplying consumers with other goods and services they would then want more urgently than additional health care and medical treatment.

Moreover, the incomes of the fewer persons remaining in health and medically related activities would tend to be higher, while the cost to patients, for the same or even better care and treatment, would be less. The improved incomes of health care personnel would be possible because fewer doctors, nurses, etc., would be able to care more efficiently for more patients.

**3. What would "comprehensive" medical care, or a "comprehensive" program to regulate health care include?** Strictly speaking, "comprehensive" is all-inclusive. Think of all health and medically related goods and services now supplied, or which could be supplied by doctors, nurses, pharmacists, hospitals, clinics, etc. Then consider all related professions such as dentistry, psychiatry, sanitation, health maintenance, accident prevention, the production, inspection and use of nourishing foods, medical drugs, narcotics, alcohol, safety devices, and so on. A truly "comprehensive" program that sought to encompass all such goods and services, con-

nected in any way with medical and health care, would be completely unrealistic. Thus, if a proposal is to be taken seriously, it must be considerably less ambitious.

**4. How may medical and health care facilities and services available in this country best be improved and/or made more readily accessible to U. S. citizens?** "Medical care" is the art of healing or the science of medicine, the purpose of which is to make sick persons well and healthy, and to keep well and healthy persons from becoming sick. "Health care" may be defined as the art or science of keeping well and healthy persons from becoming sick. So dictionary definitions do not really help to draw a sharp distinction between the two. As they overlap so much, the question of how to improve the quality and expand the quantity of both may be discussed together.

If U. S. citizens are to have more and better health and medical care, more and better health and medical services and supplies will have to be provided. There must be improved and expanded research in medicine and the related sciences—biology, chemistry, physiology, psychology, physics and the like. The production of medical supplies and equipment and the construction of hospitals and other health care facilities and supplies must also be improved and

expanded. Thus, more people will have to be employed in these fields and more savings and investments must be channeled into these branches of production.

To persuade more persons to enter these fields, they must have incentives for doing so. Each must have the hope or expectation that it will improve his or her own situation in some way—by bringing in more money, better satisfying their families, leading to more fame, security, satisfaction or adventure, etc. Otherwise, fewer and fewer persons will be willing to make the substantial investment of time, effort and money needed.

Thus, the crucial problem in supplying all citizens with the quality and quantity of health and medical care they want, at prices that are not unreasonable, narrows down to making sure that persons with suitable aptitudes, abilities, skills and assets are encouraged in, not discouraged from, entering and investing in the health care and medical professions.

**5. Suppose the federal government assumed responsibility for establishing and/or guaranteeing health and medical care for all U.S. citizens?** The demand for government health and medical care is due largely to a sincere desire to make adequate care and treatment available to everyone, including

those who would otherwise go without. With this goal in mind, our government has already become deeply involved in health and medical care. Also many other governments have attempted to provide even more extensive medical care for their people. However, these programs have not worked out as successfully as their proponents had hoped. Therefore, before expanding U. S. government involvement in this area still further, it would be well to consider carefully the experiences of other countries with such programs.

No doubt many who are treated satisfactorily are very much pleased that they do not pay directly for medical care. It is human nature to enjoy getting "something for nothing," to ask for more of anything that seems to be free or cheap, and to use it less sparingly than if a substantial direct cost were involved. This very trait inevitably increases the demand for medical attention wherever and whenever it is offered free of charge or at very low prices.

Thus, when medical care and attention seem to be free for the asking, i.e., when no direct monetary cost is involved, the demands of patients and would-be patients tend to rise. Faced with sharp increases in the demand for their services, health and medical personnel find it impossible to furnish the same quality attention they could supply



under less harried conditions. Reports on governmental medical programs here and abroad bear this out.

When medical care is provided through government programs, the quality available soon deteriorates. The waiting lines in doctors' offices and for hospital beds grow longer. To save the time of doctors, medically untrained receptionists are often given the authority to decide which patients the doctor will, and will not, examine personally. Superficial, assembly-line type medical examinations become commonplace. Strict controls and regulations are instituted to ration available supplies of medicine, hospital facilities and health care services. Mountains of government reports and forms pile up that all those involved must file.

As a result, medical and health care personnel often become frustrated. Their ambition to provide patients with quality attention is discouraged. The opportunity for innovation is suppressed, so that the treatment available to patients soon begins to lag behind the times and to become obsolescent. Given these provocations, it is not surprising that the morale of those in the health and medical care professions declines. Sooner or later many are spurred to emigrate to locations that are more congenial to doctoring. For detailed accounts of governmental

medical programs, see the many books and articles that have been written on the subject.

**6. What other factors must be considered if government were responsible for health and medical care?** Serious ethical questions would soon arise. In the first place, the individual freedom of *some* is inevitably violated by their having to contribute, through taxes, to the private welfare (health and medical care) of *others*. Then too, the program administrators cannot avoid ruling on many complex issues. As medical facilities are limited, their decisions may mean life itself, to those entitled to certain treatment, or a death sentence for those denied it. Officials would have to make difficult decisions also concerning such matters as religious freedom, euthanasia, suicide, abortion, mental health and even a person's voluntary actions and habits which might be considered harmful to his health or others.

How about the religious freedom of persons whose beliefs lead them to reject medicines or blood transfusions? Should they be free to refuse? Or must they be coerced? Even when hale and hearty, they are forced by such programs, against their religious principles, to pay taxes to cover the medical costs of others.

Should a person suffering from an incurable disease, who prefers death

to suffering any longer, be permitted to die quietly? Or must he be made to undergo extraordinary treatment to prolong his physical signs of life? Or perhaps if considered "hopelessly sick" or "terminally ill" doctors might be encouraged to hasten his end, so as to relieve the government of extra expense. A similar rationale led to the early "medical experiments" of Hitler's Germany.

Should persons who reject certain medical treatment be labeled "mentally sick," confined to asylums and coerced into submission? Reports of such tactics, used to make those who are "different" conform, have come from Russia in recent years.

Should the confirmed alcoholic or the hard drug user be permitted to abuse his own body, when this might make him a burden on other taxpayers? How about obese individuals whose eating habits are an invitation to heart attacks and thus to potentially heavy medical bills?

Should a smoker's freedom be limited if officials believe he could become a cancer victim and thus a drain on the government's budget? The British government now finds itself on both sides of this question—its Finance Office wants to encourage tobacco sales to reap high excise taxes, while its National Health Service tries to discourage smoking to reduce the possibility of heavier medical expenses later.

Debates on government medical

and health care programs cannot ignore such complex issues as these.

### **7. To what extent does the U. S. government now support, provide and/or guarantee health and medical care to its citizens?**

Federal statistics for Fiscal Year (FY) 1976 report \$37.5 billion spent on various "health" programs, including hospitals and the medical care of veterans. Other health-related government programs in FY 1976 added at least \$85 billion more, for such things as general retirement and disability insurance, benefits to retired and disabled coal miners and Federal employees, etc., plus \$22.6 billion for such public assistance programs as food stamps and nutrition. Not included in these figures are allowances for pollution control, safety inspections, conservation and management of water, power, energy, recreational and other natural resources, all of which have a direct bearing on people's health.

A partial list of the government's agencies and/or projects in health-related fields may be helpful: Department of Health, Education and Welfare (HEW), Medicare, Medicaid, Hill-Burton grants for hospital construction, Veteran's Administration (VA), Food and Drug Administration (FDA), Occupational, Safety and Health Administration (OSHA), Old-age, Survivors and Disability Insurance (OASDI), Health

Maintenance Organizations (HMO), Professional Standards Review Organization (PSRO), public health offices, consumer "protection" agencies, certain aid to "disaster areas," support and/or operation of research in the fields of the heart, cancer, neurology, metabolism, dental and mental health, etc. Yet the billions now being spent by government on health-related programs would be "peanuts" to the sums that would be needed for anything approaching "comprehensive" health or medical care for all U. S. citizens.

**8. Suppose a national program of malpractice insurance for all health care professionals were established?** The goal in an ideal society is to hold everyone strictly accountable for his actions—the good *and* the bad. Thus everybody, health care professionals included, should be able to gain by helping others and penalized if they do harm.

Health care, however, is not an exact science. Diagnosis and treatment often rest on educated guesses or speculations. Complete cures, successful treatments, can seldom be "guaranteed," for a patient's response often depends on his or her own cooperation and psychological attitude. Yet, if it can be proven beyond a reasonable doubt that a health care professional's diagnosis or treatment was wrong, had no justification at all, or that the prac-

itioner failed to use that degree of care which an "ordinarily prudent man would exercise in the same circumstances," the injured party has a legitimate claim for damages.

What is done cannot be undone, of course. However, persons should be able to recover actual financial losses due to malpractice or negligence and/or be compensated to some extent for pain and suffering by those responsible.

The obligation of making amends so far as possible for contributory negligence must be assumed by everyone in a free and open society. This obligation helps to assure that adequate precautions are taken, thus reducing human error and carelessness. This in turn ensures the highest quality health care possible. However, when patients sue, or threaten suit, on slight provocation or even without due cause—whether out of greed, unjustified confidence in modern medicine, the belief (ofttimes spurred by lawyers with similar views who take cases for contingent fees) that "rich" corporations or insurance companies can well afford to pay—the effect on health and medical treatment can be disastrous.

The cost of medical malpractice insurance rises sharply. The traditional privacy of doctor-patient relations is invaded by third parties—representatives of insurance companies, legal and medical

specialists, record-keepers, and the like. Doctors find it advisable to engage in "defensive medicine," often ordering time-consuming and expensive consultations and lab tests, or "ping-ponging" patients from specialist to specialist. Health care personnel must increase their fees to cover these additional expenses. They may refuse to take some patients. They may hesitate to try newly developed and thus potentially helpful but as yet unproven medicines or treatment. Many doctors have chosen to "go bare," i.e., to practice medicine without malpractice insurance protection. Discouraged by such conditions, some have threatened slowdowns or strikes, as recently in California, Canada and Great Britain.

Should the federal government become even more heavily involved in medical malpractice insurance than it now is, health care patients, personnel and insurance companies will find this intervention will have effects similar to those that appear in every field in which government interferes—more red tape, controls and regulations, longer delays in reaching settlements, increased standardization, disinterested personnel, less individual attention, political favoritism, higher taxes and/or more inflation to cover costs, increased hardship on those really deserving assistance, and so on.

**9. Suppose the provision of health and medical care were left entirely to private enterprise?** The more freedom and individual responsibility, the greater incentive each of us has to use our resources and energies to advantage, to avoid mistakes if possible and to produce as much and as well as we can under the circumstances. This is as true in the field of health and medical care as in every other branch of production. When there is a free market for health and medical care, the customer, i.e., the patient, is boss. He may shop around for treatment, buy or not buy as he wishes, and press for damages if he believes he is injured. To compete successfully, everyone in the health-related professions must do his or her very best to serve their patients. Thus the welfare of patients comes first. The more freedom people have in seeking and in providing medical services and facilities, therefore, the better will be the quality of available care and the more will be offered on the market at costs that are not unreasonable.

In the United States, the provision of health and medical care is still largely voluntary and free. Insofar as this is true, everyone is better off, especially those in need of medical care and attention. However, federal, state and local governments are interfering more and more. As a result, government rules and regu-

lations multiply. Complicated forms must be filled out by almost everyone concerned. Every government rule and regulation, which affects health care professionals, prevents or deters them from following their own best judgment. Doctors and pharmacists are restricted in prescribing medicines. Regulations are imposed on the construction and operation of hospitals.

Every government interference also tends to divorce still further the benefits received from those who pay the costs. What seems "free" is always in greater demand and yet those who pay have no control. For instance, a recent study released by the Investigations Subcommittee of the House Commerce Committee reports that elective surgery is about twice as frequent among government-financed Medicaid patients who are operated on "free" than it is among privately-financed patients.<sup>2</sup>

Taxes to finance these various medical programs add to the cost of everything on the market. All these interferences tend to discourage ambition, industry, ingenuity and special effort among health care personnel, leading in time to a deterioration in the quality of the care and treatment available. Before further hampering those who supply us with health and medical care in

this country, we should listen to the voice of reason and experience. Dr. Anthony Partridge, a doctor with more than 30 years experience in general practice in Great Britain, including five years before the National Health Service began in 1948, gives us warning:

"I can speak as a doctor who was practicing general practice before the National Health scheme started. Within a month, my work load jumped 400 per cent or roughly thereabouts. Now how did I cope with this? And I plead guilty of coping with it in a non-doctoring way. I no longer doctored patients. I had to *manage* the list . . . and my colleagues are doing it in just this way. Because the patients can have any consultations they like, regardless of the severity, the doctor has to build up defense mechanisms against over-usage of his time.

"The first defense mechanism is that he employs a receptionist. She is known as 'the dragon at the gate.' Now her job is to cut off as many of what she thinks—and she is not trained—fruitless calls as she can. For example, supposing a perfectly reasonable person rings up and asks for a call, because her daughter's got a temperature. The chances are that the 'dragon' will say, 'I'm sorry to hear your daughter's got a temperature. The doctor's very busy. I'll have a word with him and no doubt he'll put a prescription out so that

<sup>2</sup>See *New York Times*, September 1, 1977.

when you come shopping you can pick it up. I'm sure you'll be helped this way.' Now this patient has never been seen. The prescription is probably for antibiotics, or something quite expensive, and could be very dangerous. But this is the way it is done.

"The *lucky* patient, on the other hand, may get an appointment to see the doctor . . . say, three days later. But because of the fact that each patient on his list—and he has a list of 3,500—has five to six consultations a year, they average three to four minutes a consultation. So the doctor doesn't look up. He doesn't stand up. The patient comes in, makes the comment as to what's the matter. The doctor is probably writing a prescription before the patient is finished speaking. The next patient is then called for. This is not doctoring, this is mass production. The doctor then sends many patients to the hospital.

"Now this is the fate of good doctors. It kills a dedicated doctor. It really destroys him. He feels so frustrated. But it is awfully good for a bad doctor because you can *manage*—not *doctor*, mark you, *manage*—this vast number of patients on this trivial system.

"Another thing must be realized. Managing a list is very easy. Doctoring a list, or doctoring patients, is very difficult. If you are a rather lazy doctor, this system suits you

down to the ground because you can manage by disposing of your patients quickly in the morning and you can have the afternoon on the golf course. One of the reasons why this service continues, I regret to say, is because a large number of doctors are quite happy. They've got no worries. They just pass their patients around and do not do any doctoring in the sense that we were taught when we were medical students.

"Unfortunately, this is such a large portion of the medical profession there isn't enough pressure from the doctors themselves to get this system altered. *It is good for bad doctors, good for non-ill patients. It's ghastly for dedicated doctors and ghastly for sick patients*, because of the waiting lists and the poverty of the consultation at general practice level.

"The patients lose all consumer control because they do not pay the doctor themselves. The doctor is paid by the State. Now I must make this quite clear to you as an American doctor. . . . Whatever you do, make sure that the patients remain in control of the medical profession by direct payment by the patient. Don't let your doctors be employed by the State or get messed up by the bureaucracy which goes with it. The State is not interested in *quality* care. It is only interested in *quantity* care and votes. The State couldn't

care less whether the patient has a three-minute or a three-hour consultation—this is my impression—because *that* doesn't concern them."<sup>3</sup> ④

<sup>3</sup>From an interview with Dr. Partridge by Dr. Michael Smith, Past President of the Louisiana State Medical Society (August, 1976).

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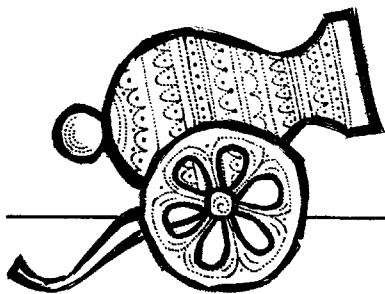
### OTHER DEBATE TOPICS OF RECENT YEARS

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# Who Guards the Guardians?



THE FACT that people are foolish, as everyone is from time to time, has been seized upon by reformers to justify all manner of impertinences. It is only fitting, therefore, that among all the words whose meaning they have debased, reform should be accorded a place of its own.

The amendment of conditions which are judged against a standard of instinctive moral values has been reshaped, in an age when those values are under attack, to signal amendments which serve only the aims of the attackers. By destroying a society's criteria, and putting nothing in their place save the social

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theories of the moment, the reformers further the achievement of those aims. By setting up straw men for their attacks, they weaken the real men whose independence they fear.

Thus the excesses of limited private monopolies are invoked to justify their replacement by the total monopolies of the state. Public ownership is advanced in all seriousness as the best and wisest means to supply the public with everything from soup to nuts. The soup may lack variety, but it is no longer contaminated by profit. The nuts may be scarce and of one kind, but they are grown on state farms under the supervision of inspectors imbued with the best of intentions.

The whole thrust of the state's expansion is toward uniformity. The purpose of the state, after all, is to



enforce laws which impose certain restraints upon individual liberty. The purpose of the restraints is to prevent one individual from trespassing upon the liberty of another. The good fences which make good neighbors are policed by the state. Keeping the peace is its one acknowledged duty.

But as the Latin tag attests, the role of guardian is the most dangerous of all. Who, indeed, guards the guardians?

### **The Urge to Reform**

It is that temptation to butt in which is at the root of the matter. We are prone to it as individuals. In our pride we can see how things might be better ordered, especially as they affect our neighbors. By prodigies of self-control we may refrain from telling them, but the urge is there nevertheless. What holds us back is partly the fear that our advice will be resented but more that it will be ignored.

With maturity we learn to suppress these urges, to take people as they come, even to recognize in them shortcomings of our own.

The state, however, is subject to no such impediments. The secret of its power lies in its very remoteness. It is one thing to refrain from advising the man next door, whom we know. It is another thing altogether to compose a set of regulations for people collectively. They are as diverse

as the regulations are uniform. Their diversity constitutes a perpetual challenge. If only people would respond to the forecasts, if only the behavior which is predictable in general terms would conform in particular ones to the trend of the graph.

That is the challenge which the state feels called upon to meet. It has, its servants have come to realize, immense, even limitless power; the power to create money. Not wealth, but the illusion of wealth. Dealers in illusion, the state's servants are its first victims.

Unaware of its futility, they apply themselves to the task with a will. Each fresh set of regulations exposes gaps that must be filled. The establishment of one board reveals the need for a second. Unless it sows the seeds for continuance in another form, no commission of inquiry is complete.

As the regulations mount, as the boards and commissions proliferate, the law itself is crushed under the weight of them. Relationships which were simple are made complex. Rules which everyone could understand are multiplied into abstractions and interpretations and footnotes to sub-sub-paragraphs until they are incomprehensible to everybody, not least the authors, least of all the lawyers and judges whose lives are consumed in deciphering them.

## How Bureaucracy Grows

One result is to bring the civil law into contempt. Another is to establish, outside the courts, a court where there are neither lawyers nor judges, where arbitrary rulings are the prerogative of inspectors, regulators and commissioners, and where mountains of precedent are built upon molehills of law.

When the growth of a bureaucracy passes beyond control, it becomes a law unto itself. The process is self-fulfilling. The failure of each new intrusion compels it to intrude again. More people are hired, more programs devised to occupy them, until the bureaucracy's, original purpose is obscured. No longer is it there to administer the law, for the law has been buried. It is there to minister to itself.

The contempt which this process heaps upon the civil law is conscripted to bring the criminal law into disrepute. Here, however, the attack is mounted from the safety of that other bastion of liberalism—permissiveness.

The doctrine that instinct deceives, that behavior is conditioned by circumstances, and that the failure of individuals to conform to society's rules is not their fault but society's, is applied enthusiastically to the treatment of criminals.

Does he steal? He has been deprived by society. Does he commit crimes of violence? He is the victim

of a society which, in its disregard for his needs, was violent to him. Does he commit murder? The pressures that society exerted upon him were too great to be borne.

It is in this that liberalism's fundamental hypocrisy is fulfilled.

## A New Class

The attitude which dictates a concern for people in general while denying the legitimate aspirations of individuals in particular is reversed when some of those individuals break the law.

Then they are transformed from a condition of individuality to one of membership in a class. Not a criminal class, as our forefathers held before the enlightenment, but an underprivileged class, a class which has somehow escaped the welfare net, a class, in consequence, which it is society's duty to rescue.

If members of the class are not responsible for their condition, how can they be blamed, much less punished, for actions which derive from it?

Innocent unless proved guilty, they must be freed without delay until the crowded calendar can admit their reappearance. In the meantime society will muster its social workers, its psychiatrists, its publicly appointed counsel and its special pleaders to excuse, to explain, by all possible endeavors to exculpate the accused.

The police, whose duty to catch the transgressor was discharged upon his arrest, are witnesses to a process which puts them, who defend the law, upon the defensive. By a curious twist of reasoning, the police are the enemy, not the criminal. As the tangible representatives of the society which wronged him, they are clearly in the wrong.

The hypocrisy culminates in the treatment of premeditated murder. Whether he be a domestic bandit, who kills for money, or an international one who kills for a cause, he must be preserved from the fate he dealt without hesitation to his victims.

### **Flight from Reality**

The principle of an eye for an eye, which served from Moses' day until recently, has been abrogated by those to whom principles are an encumbrance. That the victims were innocent, were in fact strangers until the gun introduced a fleeting intimacy, is ignored. Conveniently, they are dead, members of the largest class of all, and the state has no responsibility for them. It is free to turn its attention to the well-being of their murderer.

Predictably, the word murderer is the first casualty. The domestic murderer is never referred to by that term. It is too precise. It admits of no doubt that he did, with the premeditation which is inseparable from

taking a weapon to the scene of his crime, kill someone on purpose. After the event the word is too harsh a reminder of the harshness of his crime.

The welfare state, whose aim is to cushion its wards from the inescapable realities of life and death, must itself escape reality. In court, the domestic murderer becomes "the accused." When guilt has been established he is thenceforward referred to by name, as befits his notoriety. If, after the passage of time, he is referred to again, the public's recollection is prompted by reference to the crime he was "involved in." When, in due course, he is released, if the crime was sufficiently newsworthy his earlier notoriety will be revived. The name of his victim may even be mentioned, though not in a reproachful way, because he has now paid his debt to society. The murder he committed has been expunged. It is as if it had never been.

By imputing to the abstraction of society the qualities which can be identified only with the individuals who comprise it, the state, which is itself an abstraction, subverts the truth. Society, which cannot be punished, is blamed for the crime which only a person can commit. The theory that no one, because of upbringing or environment or deprivation or whatever, is responsible for anything, requires the creation of a substitute. Since reason and

instinct tell us that there can be no substitute, the state must confound us by indirection.

Like a magician's audience we are led to believe that things are not what they seem. Society which was to blame in the first place has become the victim of the murderer it bred. When he has paid to it the debt of his crime his unfortunate lapse will be forgotten, swallowed up by abstractions as woolly as the thinking which gave rise to them.

### **The International Bandit**

The international bandit can be disguised in more fanciful terms. He is at worst a terrorist, more often a freedom fighter, a nationalist, an urban guerilla, or simply a member of the "movement" of the hour. Never is he a murderer. The people he kills are not the victims of his guns or his grenades or his dynamite, but of the circumstances which drew them to that particular airplane, or embassy or public place.

They are hostages against the fulfillment of demands in which they have no concern. Secure until that moment in the possession of identity and occupation, they surrender both to the cause of their assailants. As hostages they will suffer, as hostages they may die, but there is nothing personal about it. The abstractions which serve the domestic scene are applied the more easily to the international.

For if the public sector at home is out of control, the super-sector that sprouts from the United Nations abroad is out of all reason.

### **Compounding the Folly**

If it is foolish to blame a national society, from which traditional values have been banished, for crimes committed by persons, then transferring that blame to international society, which has neither tradition nor values, merely compounds the folly.

To suppose that, by seconding them to the United Nations, national bureaucrats acquire qualities superior to those of their fellows at home, is only the first in a chain of assumptions. If experience leads us to doubt the validity of the domestic assumption—that all wisdom resides in the state and, by implication, in its servants—the sheer impertinence of the international assumption may well leave us breathless.

Applying to an international court the same social theories which have brought domestic courts into disrepute is to confuse issues already confounded. The effect is to dissipate responsibility to such an extent that it disappears.

The dictator who conspires, on grounds of national security, to murder thousands of his fellow citizens is quick to appeal to the Security Council if his personal security

is threatened. He is blameless at home but he still feels the need for a higher authority to appeal to.

That the Security Council should be as powerless as the United Nations of which it is part is wholly consistent with the theories which gave birth to them both. That nations which are manifestly unable to govern themselves individually—many having acquired nationhood since the day before yesterday—should be credited with the ability to govern all nations collectively, including those with centuries of tradition and cohesion behind them, is the final absurdity. Yet it persists.

The motive force can be ascribed to two distinct impulses. First is the natural tendency of the state to dissolve its responsibility in committees. The drive to escape responsibility, to seek the shelter of a consensus, at all costs to be fireproof, is the inevitable corollary of social theories which hold that no one is to blame for anything.

The ready assumption of personal responsibility, attributed to George Washington in the matter of the tree and his little hatchet, may be apocryphal but its survival springs from

more than Americans' veneration of their first president. It marks a rare quality. How rare may be judged when we try to recall examples of public figures, whose prompt acceptance of responsibility for deemed successes is a daily occurrence, accepting responsibility for evident failures. "It was my fault"—that, to borrow an American idiom, will be the day.

The second motive is more sinister. The drive to transfer power from the individual to the state—indeed to render the individual powerless—finds its natural extension in the transfer of power from individual nations to the international body which foreshadows the world state.

If the best is the enemy of the good there is little doubt that, for Western civilization, the enemy is a creeping mediocrity which substitutes envy for excellence. The independence which drives men to seek the best is attacked by those who would make all dependent on the state.

Western civilization faces a crisis of the spirit. It is the West's belief in its own beliefs which is at issue. ☉

### Liberty Abused

IDEAS ON



LIBERTY

THERE is a natural and necessary progression, from the extreme of anarchy to the extreme of tyranny; and arbitrary power is most easily established on the ruins of liberty abused to licentiousness.

GEORGE WASHINGTON



# World in the Grip of an Idea

Clarence B. Carson

## 13. World War II: The Socialist Conflagration

WAR is filled with incongruities. On or about May 1, 1945, I watched a command performance of the Dresden Symphony Orchestra in a small town located along the border of Germany and Czechoslovakia. The command was probably issued by the commanding general of the First Infantry Division—the “Bloody Red One”—of the United States Army. The most obvious incongruity was that the United States and Germany

were at war with one another, and here were American soldiers in battle dress being entertained by a German orchestra. Another incongruity was that amidst the incivility of war—as Patton’s Third Army made its final thrust toward Prague—we paused for an hour or so to listen to one of the finest products of Western Civilization, glorious German music performed by a symphony orchestra.

The reason for Dresden’s orchestra being quartered in this village adds to the incongruity of the situation. On February 13-14, 1945, Dresden had been subjected to a

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

succession of air raids by British and American planes. Dresden had long been famed as a cultural center and was architecturally one of the most beautiful cities in Europe. It had little significance, almost none, as a military target and had until the above dates only two small raids.

### **Bombing Dresden**

Although Dresden was not an open city—though it was barely defended—, there was a widely held belief that the Allies did not intend to bomb it. In consequence, refugees had poured into the city to double its population to 1,300,000 people. Allied intelligence had reported that German armor was passing through the city by rail, but this was apparently known to be false by air force commanders before the raids were sent out.

At any rate, these may well have been the most devastating raids in a brief period in all of history. The city was devastated, over 100,000 people killed according to some estimates, and 1600 acres laid waste. In the midst of one of the British raids a fire storm broke out raising temperatures to over 1000 degrees Fahrenheit and sucking high winds into the vortex of the fire. The American raid which followed was carried out in the daylight. The bombers were accompanied by fighter planes which added to the

death-dealing destruction by strafing civilians. It was to find refuge from this destruction that the Dresden Symphony had moved to a small town.<sup>1</sup>

There may have been no particular malice behind the otherwise wanton bombing and strafing of Dresden. Certainly, the air force personnel involved in the raid were performing their assigned tasks as thoroughly as they could. Apparently malicious atrocities abounded, however, in World War II. Among the most horrifying of these followed in the wake of the assassination of the SS leader Reinhardt Heydrich by Czech soldiers secreted into Czechoslovakia by the British in late 1941. In retaliation, the Germans immediately killed 1500 Czechs. Three thousand Jews were shipped from Czechoslovakia to Poland to be put to death. A few days after Heydrich's death, the village of Lidice was apparently selected at random to become an object lesson to the Czechs. The whole village was sealed off by the SD. The next day the males were all killed in a massacre which took ten hours to complete. The females, excepting those who were pregnant, were sent to concentration camps. Pregnant women were sent to hospitals to be delivered when their time came. The new born infants were put to death, and the mothers then sent to concentration camps.<sup>2</sup> The village of

Lidice was physically destroyed as well.

Germans and Russians sometimes vied with one another in their cruelty to prisoners. The German Admiral Canaris made this report from the Russian front in December of 1941:

Our own treatment of Russian prisoners is having awful consequences. In the retreat from Moscow we had to abandon German field hospitals as well. The Russians dragged out the sick and injured, hanged them upside down, poured gasoline over them, and set them on fire. Some uninjured German soldiers had to watch this torture; they were then kicked in the groin and sent back to the German lines with instructions to describe how the Bolsheviks were reacting to news of the mass executions and barbaric treatment meted out to their comrades in German captivity. On another occasion German prisoners were beheaded and their heads laid out to form the SS symbol.<sup>3</sup>

### **Barbarities and Atrocities**

As the Russian armies swept into East Germany in early 1945, many of the inhabitants fled westward attempting to escape the terror. Here are two stories recounted by John Toland, from among many, many more:

One of these groups was entering the village of Nemmersdorf when Russian tanks abruptly appeared, bulldozing everything in their path. Dozens of carts were smashed, side-swiped, rolled

over. Baggage spilled out, people were crushed. The tanks rolled ahead obliviously, but in a few minutes Dodge trucks appeared. Infantrymen jumped out and began pillaging and raping. At The White Mug restaurant four women were raped many times, dragged outside naked and nailed through the hands to a wagon. Not far away, at The Red Mug, another naked woman was nailed to a barn. When the Russians moved off, they left behind seventy-two dead civilians.

A few miles to the west, Russians were breaking into the village of Weitzdorf. A young woman, Lotte Keuch, watched in horror as her father-in-law and six male neighbors were shot. Next a dozen French slave laborers at the manor were rounded up and their rings taken away—by slicing off their fingers. Then the Frenchmen were lined up, executed. And the raping began.<sup>4</sup>

Such barbarities—and their number is so great and the details so fulsome that the sensitivities are soon dulled and the mind numbed by accounts of them—require explanation. It is undoubtedly true that there have usually been atrocities in the midst of wars. War frequently musters and loosens passions which are not easily contained. It is not easy to prepare men for the business of killing without removing or lessening civilized restraints. The simplest approach is to get men to thinking of the enemy as less than human. This is advantageous, too, for then the soldier may commit acts against them while, hopefully, re-



taining his inhibitions against doing so against those on his side. At any rate, any historian should be able to call up stories of atrocities from many past conflicts, and he will usually have been aided in his task by those who have found advantage in picturing the enemy in the worst possible light.

Even so, the exigencies of war are not a sufficient explanation for the atrocities of World War II. Warfare may provide the setting for atrocities, but it also provides the setting for acts of bravery, restraint, and compassion. A conqueror may destroy all in his path or he may liberate and restore. The character of any particular war is a reflection of the state of civilization of the combatants. It is determined, too, by the aims and ideals of the participating countries. The events which comprise a war are not self-explanatory; they must be referred to the larger framework from which they arise. This is especially so when events conform to a pattern and when large numbers of people are involved in them.

### **Why in World War II?**

The ferocity and brutality of World War II stands in special need of explanation. This is the case because the notion had been widely held that mankind was making great progress in the twentieth century. Barbarity was supposed to be

diminishing as a result of the spread of civilization. President Woodrow Wilson had proclaimed that when democracy was in the ascendant wars would be no more. If universal suffrage and large scale voting are sufficient evidence of it, democracy was in the ascendant between World War I and World War II. At the forefront of progress, according to socialist ideologues, was the spread and adoption of socialist ideas. These give added impetus to the need for explanation of atrocities and ferocity of World War II.

Despite the vast literature on the subject, there has been all too little effort to explain World War II by the ideologies that were involved or held sway. True, Nazi racist ideology is usually taken into account, but its explicit collectivism and tacit socialism are usually ignored. There have been ideological explanations aplenty, i.e., explanations by those under the sway of some ideology, but these have left socialism unindicted. Dictatorship or totalitarianism have been blamed often enough, but such explanations do not explain the rise of dictators or the advent of totalitarianism. The scribes of our era have hidden from the implications of the very ideas they hold dear.

World War II was the clash of socialist titans. It was ignited by revolutionary socialism and threatened for a time to consume the whole world in its fire. In the center

ring of this struggle were Soviet Communism and National Socialist Germany. The main struggle was for dominance of central and eastern Europe, particularly eastern Europe. The English speaking peoples were on the periphery of this contest though pride and confused alliances obscured the fact.

### **A Confused Scene**

Everything conspired, it almost seems, to obscure or conceal the nature of the main struggle in World War II. From August of 1939 into June of 1941 Germany and the Soviet Union had a non-aggression and mutual assistance pact with one another. After the brief thrust into and conquest of Poland, the German effort for nearly two years was concentrated in western Europe: the Scandinavian countries, the low countries, France, and Britain. It was further confused by the push of Germany and Italy into southern Europe and North Africa. More, just as the nature of the struggle began to come into focus after the invasion of the Soviet Union by Germany in June of 1941 it was distorted once again by the Japanese assault on American possessions and the British Empire in the Pacific. With the conflict spread over half the world it is small wonder that many lost sight of its central stage, or even doubted that it had one.

A good deal of the confusion can be charged to Hitler's temperament and the adventures into which it led him. He was intuitive, opportunistic, and often governed by irrational prejudices. Ideology was apt to be sacrificed to whims or prejudices, particularly when he was frustrated by developments. Above all, much of the course of the war was beyond his control. His alliance with Mussolini was hardly founded in love for the Italian people. War against the British was almost certainly not to his liking, and he had little interest in North Africa or the Pacific. Expedient alliances and unwanted contestants led him to some strange places. He was given to blaming many of these misfortunes on the malign influence of world-wide Jewry.

Even so, World War II was mainly a contest for control over eastern Europe, and to a lesser extent all of continental Europe. This conclusion is supported from three different directions: the aims of the contestants, the arena of the major and protracted land battles, and the consequences of the war. It is tempting to describe it as a war between Pan-Germanism and Pan-Slavism, for that was certainly a major element in it, but that theme can here be subordinated to the contest between two brands of revolutionary socialism: National Socialism in Germany and Soviet Communism.

This is so because revolutionary socialism provided the methods for the concentration of power for the expansive thrusts, whatever the ultimate motives of those who directed them.

### Lebensraum

World War II broke out as a result of the expansive efforts of Germany and the Soviet Union. Germany was expanding to the east: first Austria, then Czechoslovakia, and then the expansion into Poland which provoked the general war. The Soviet Union attacked westward: Poland, Finland, and annexed Latvia, Estonia, and Lithuania. The next most likely goal of both powers was the Balkan countries, although that was delayed by Germany's war in the west. Germany and the Soviet Union were on a collision course with one another, though the fact was obscured for a time by the Nazi-Soviet Pact.

It brings some clarity to this confused situation to examine the aims of Germany and the Soviet Union, or, if that is too broad and ambitious, the aims of Hitler and Stalin. First, those of Hitler. A ponderous gloss was provided for Hitler's aims by the pseudoscience of geopolitics as advanced by Professor Karl Haushofer of Munich. Geopolitics is a way of looking at geography in terms of the interests and desires of a single nation without reference to

the interests and possessions of others. It has been used by conquerors throughout history, but prior to the twentieth century none has attempted to give academic standing to the subject.

The key phrase drawn from geopolitics for Hitler's aims was *Lebensraum*. It can be literally translated as "living space," but it was freighted with the nationalistic aspirations of living space for and domination by Germany. It should be noted, too, that socialist regimes frequently suffer from what might be called claustrophobia, a sense of being hemmed in and surrounded by enemies. This has been characteristic of the Soviet regime throughout its history. The reason for this is not difficult to grasp. The control over their own people is ever threatened by the existence of other countries independent of their will. The Nazis also used the term *Grossraum* which meant the "whole space" or area that they required. The term was applied in the following way:

Politically the New Order was simple. German hegemony was to be extended by German arms and accepted by everybody else. Nazi values were to be exported from their German centre and the pattern of Nazi revolution and Nazi life repeated in other lands. The first precondition of the New Order was conquest: the land had to be got. How much land was left vague. At the high tide of German successes the concept of the

*Grossraum*, or Greater Germanic Estate, embraced Europe from the Atlantic to the Urals, although a little earlier it had seemed to make do with rather less of Russia. The determining features of the *Grossraum* were not its borders but its nature. Instead of finding where people lived and then drawing permanent or semi-permanent frontiers to fit the ethnic facts, the Nazis began by designating an area and then moved people around in order to make demography fit the facts of power. The *Grossraum* therefore might be any size and in 1942 one writer envisaged it as covering one sixth of the globe. It was not a fixed area but a biological habitat like a nature reserve. It was where the German family lived.<sup>5</sup>

More precisely, it was an area into which the German family might be moved and established after conquest.

### **A Germanic Europe**

One way to grasp what Hitler had in mind is to understand that he aimed to unify Europe under German hegemony. But it was not to be a unity of equals. Much of Europe, particularly eastern and southern Europe, was conceived as an area to be colonized. The closest thing he had by way of a model for what he had in mind was probably the English attitude toward and treatment of the North American Indians.

Hitler's racial theories were used to buttress the proposed conquest, domination, and uprooting of peoples. He held that many of the peo-

ples of Europe were inferior, indeed all the others were inferior to the Germans. Other Nordic peoples were the next highest in the scale, and under German guidance they could probably be more or less self-governing. The Latin peoples would probably be next in line, though for expedient reasons—Germany was allied with Italy and hoped for alliances with Spain and France—their position in the ethnic scale was not carefully spelled out. Slavs were considered to be decidedly inferior, not worthy of being civilized, but good potential slaves. The Nazis heaped contempt on the Poles, spoke of them as being sub-human, but once his armies were in Russia, Hitler was equally contemptuous of the Russians. The level of education proposed for the Russians was described this way by Heinrich Himmler, head of the SS: "I can only repeat what the Führer has asked. It is enough if, firstly, the children are taught the traffic signs at school so that they won't run under our cars; secondly, they learn to count to twenty-five; and thirdly, they can write their names as well. No more is necessary."<sup>6</sup> At the bottom of the scale were the Jews.

### **Compulsory Unification**

What Hitler conceived was a Germano-centric Europe. Theretofore, Europe had been fragmented into many small countries, depen-

dent upon one another and the rest of the world. Not only had Europe been fragmented but its focus had been "peripheralized." Russia had linked a considerable portion of the land mass of Europe, and some of the most fertile, to Asia. Italy's center was on the Mediterranean looking to Africa and the Near East. The countries fronting on the Atlantic had thrown themselves into colonizing in other portions of the world. Germany would become the heartland of a unified Europe, economically self-sufficient, and a power so formidable that the rest of the world would be at bay.

In the course of World War II enough of this program was carried out to indicate that Hitler was in earnest about it. Western and central Europe was virtually depopulated of Jews. There had been talk of resettling them on the island of Madagascar, but nothing ever came of this. They were shipped to the east, mainly to Poland, where a massive liquidation took place. Russian Jews were frequently killed on the spot. Poles were moved out of some areas of Poland and Germans resettled there. A vast displacement of persons took place as millions of Europeans were shifted about to work on German industries and farms. These peoples were segregated from the Germans as far as possible and constituted little more than slave labor.

Clearly, Nazi aims were in opposition to that of the Communists, but it needs to be made clear that the Soviet Union had aims of its own. Soviet expansion was (and is) fueled by three fairly distinct but interrelated aims. One of these aims is imperial in character. The Russian Empire was partially dismembered during and after World War I. Western portions were cut away to form nations, such as Estonia and Latvia. The thrust of the Soviet Union during the early months of World War II to reclaim this territory attests to the imperial aim. It is probable, too, that Pan-Slavism still played some part in the quest to regain lost portions of the Russian Empire. The thrust of Germans eastward has long been matched by the Russian thrust westward. Russia has long been technologically backward and has looked toward the West in one way or other to make up this deficiency.

### **Russian Expansion**

Another aim of Soviet expansion was strategic. Russia is very nearly landlocked to the west and south. Leningrad, the major western port before World War II, had access to the Baltic only through waters fronted by Finland, Latvia, Estonia, and Lithuania. Archangel lies far to the north in frigid waters. Russia has long sought, to no avail, a warm water port in the south that would

have access to the Mediterranean during time of war. More, there are no natural barriers of consequence separating central Europe from European Russia. Buffer states have provided such solution to this problem as has been offered, but when these have been unfriendly, as they generally were before World War II, they were unreliable buffers.

The other aim was ideological. Indeed, all other aims have generally been subsumed so as to be virtually a part of the ideological aims. When, for example, the Soviet Union established a Communist controlled government over Poland and made it a satellite state, the imperial, strategic, and ideological aims of the Soviet Union were satisfied in a single stroke.

The ideological aims of the Soviet Union pit that country against every non-Communist country in the world. In 1919 the Communist International, known for many years thereafter as the Comintern, was founded in Moscow. It purported to be a creature of Communist parties from around the world, but in fact control over it was monopolized by the Russians. Moscow became the center for the domination of communist parties founded in countries around the world. These parties were to foment revolution whenever and wherever they could. One of the points to which parties must concur was to this effect:

In countries where a communist party is permitted by the laws to function legally it must nevertheless maintain, parallel with its legal organization, a "clandestine organisation capable at the decisive moment of fulfilling its duty towards the revolution."<sup>7</sup>

Moreover, all communist parties must have their ultimate allegiance to the Soviet Union:

Communist parties must support unreservedly all soviet republics in their struggles with counter-revolution, urge workers to refuse to transport arms or equipment destined for the enemies of a soviet republic, and pursue propaganda by legal or illegal means among all troops sent to fight against a soviet republic.<sup>8</sup>

This last point shows the marks of having been formulated during the civil war in Russia, but in essence it still describes the relationship between the Soviet Union and any parties it controls in other lands.

### **World-wide Communism**

This was a blueprint for the spread of communism around the world and domination by the Soviet Union. It did not necessarily entail conquest in the usual military sense but it did, in effect, envision the fruits of conquest for the Soviet Union. The great prize, historically, for communism was to be Germany. The writings of Marx were replete with references to the coming of revolution in Germany. The Com-

munist Party in Germany was growing in appeal in the months before the Nazi takeover. Hitler set all that at nought.

The Nazis and Communists, then, were profound enemies. To Hitler, Communism was a Jewish conspiracy to dominate the world. To Stalin, Nazism, usually referred to as "Fascism," was the last virulent and aggressive stage of capitalism. It was the mortal enemy of communism come to life and moving on the world stage. To those not infected by either doctrine, communism and Nazism were profound enemies because they were different varieties of revolutionary socialism contesting for control over Europe, and perhaps the world.

Hitler considered asking Stalin for an armistice on several occasions. There was talk of making contacts by way of the Soviet embassy in Sweden. Yet, each time he drew back. He is reported to have remarked that it would be of no use even if Stalin accorded an armistice. As soon as he was able Hitler would resume the assault on Russia. By most accounts, the conquest of Russia was Hitler's deepest and most abiding ambition, that and ridding Europe of Jews. Despite all their similarities, and in part because of them, Nazism and Communism were irreconcilable opponents at bottom.

The eastern front was the scene of

the titanic struggle between these socialist powers. Most of the worst horrors and much of the ferocious fighting occurred there. (The major exception to this was the bombing and strafing of civilian populations by both sides in western Europe.) It was in the east that the liquidation of millions of Jews took place, first by massacres with shot and shell, and then in gas chambers. It was in the east that perhaps a half million Gypsies were slaughtered. It was on the eastern front that ideological murders took place, the killing of commissars whenever they could be taken and retaliation by Communists.

### War Casualties

One way to measure the scale and ferocity of the fighting is the number of military personnel killed and otherwise lost in the war. The Soviet Union reported seven and a half million personnel as killed or missing. German military personnel killed or missing were reckoned at 2,850,000, though all of these were not lost on the eastern front. By contrast, the United States lost 292,100 in all theaters of operation, and the British Commonwealth somewhat over half a million.<sup>9</sup>

The scale of the war on the eastern front has probably never been matched in all of history. There have been greater concentrations of forces in smaller areas but not on

such a far-flung front. The Germans invaded the Soviet Union in June of 1941 with 135 divisions of their own and 13 Finnish and 15 Rumanian divisions. The Russians brought to bear approximately 136 divisions of their own. At a later date in the war the Germans claimed to have identified 360 Soviet divisions fighting against them, and still later there was talk of the Russians having over 500 divisions. By contrast, the United States had 60 divisions on the western front in the spring of 1945. (The division was the largest standard sized unit employed in the war, but the size varied from country to country and from time to time.)

### **The Battle of Stalingrad**

The war was fought on a front stretching for 2000 miles from Leningrad in the north to Rostov in the south. Leningrad was never taken by the Germans, but it was laid under siege for 900 days. "Without light or fuel, the inhabitants of the beleaguered city depended upon supplies hauled across Lake Ladoga. . . . Enemy bombardment, starvation, and disease cut down a million citizens; the dead at times were heaped up in streets littered with refuse and excrement."<sup>10</sup> One of the reasons the Germans never took Leningrad was that Hitler did not want his armies bogged down in the house-to-house fighting

of a large city. Even so, it happened in one of the decisive battles of the war, the battle for Stalingrad in the winter of 1942-43. Here is a brief description of the fighting there: "The closest and bloodiest battle of the war was fought among the stumps of buildings burnt or burning. From afar Stalingrad looked like a furnace and yet inside it men froze. Dogs rushed into the Volga to drown rather than to endure any longer the perils of the shore. The no less desperate men were reduced to automatons, obeying orders until it came their turn to die, human only in their suffering. The Germans were on half rations from the end of November. . . . The final capitulation came on 2 February. Ninety-one thousand survivors, including a Field Marshal and twenty-four generals, were taken captive. The Russians had already taken 16,700 prisoners during the last weeks of the fighting. Some 70,000 Germans died during the siege, many of them from exposure or starvation, some by suicide."<sup>11</sup> The ferocity of Russian attacks gained force by the apparent unconcern of the leaders for casualties and lack of fear of death by the troops. A German specialist described their attitude this way:

"Soviet Russians reacted differently to battle from civilized city dwellers. They remained unaffected by high casualties . . . , by close combat, by battles at



night, in villages and in forests. They were used to misery, to lack of care, to absence of leave and of mail, to suffering cold and hunger. They faced death with fatalistic equanimity."<sup>12</sup>

This war on the eastern front was characterized by a ferocious assault not only on persons but also on property. As German armies moved into the Soviet Union they were followed by economic organizations bent on expropriating and using for their own efforts whatever they could take from the Russians. All state-owned property was simply confiscated. The Russians, on the other hand, destroyed whatever they could not take with them as they retreated. The horror of the war was augmented by the massive confiscation and destruction of property.

Much, indeed most, of Europe—west, central, and east—was devastated in the course of World War II. Only three countries, each small in population and peripheral, escaped the destruction: Portugal, Sweden, and Switzerland. (True, Ireland and Spain were spared most of it, but Spain had experienced its own destruction in the civil war just preceding World War II.) European civilization, the most vibrant in all of history, was shattered. The greatest work of civilization is the city; indeed, "city" and "civilization" spring from the same etymological root and cities are the centers of civilization. The shattering of Euro-

pean civilization was visible during and immediately after World War II in the rubble of the cities.

### Cities and Civilization

The modern city is a marvelous tribute to man's imagination and ingenuity, a result of his aspirations to build, and a wondrous complex wrought from the cooperation of many men to bring it into being and operate its facilities. The network of highways and railroads which pour into and out of cities gives some indication of their centrality and economic vitality. The huge water mains that supply them, the maze of electric wires that light them, the subterranean sewers which drain them, and the vehicles that ply their numerous streets make it possible for hundreds of thousands of people to live in close proximity to one another in comfort and security.

War turned many of the cities of Europe into torture chambers for their inhabitants. Artillery bombardment, street fighting, and bombing broke water mains, cut off electricity, made movement precarious, and made rubble or shells of buildings. The desolation of such small cities as Aachen could only be overmatched by that of huge cities such as Berlin, Leningrad, or Hamburg.

It has sometimes happened in history that barbarians have conquered more civilized peoples and laid their

cities waste. When the Germanic tribes conquered the remains of Roman Britain the technology of cities was beyond their abilities to operate and their needs to use. Those that were not destroyed must have been left to deteriorate and decay. So it was, too, for much of the western Roman Empire as Europe descended into the Dark Ages.

### A Fury Born of Ideology

But Europe was not laid waste in World War II by barbarians who could not comprehend or utilize cities. On the contrary, every major power involved had large and complex cities of its own. The Germans who rained bombs on London and bombarded Leningrad into rubble had some of the finest cities in the world. The Americans and British who bombed Dresden and Hamburg and Berlin and Schweinfurt and many other cities were proud of their own great cities. Nor will it do to think of the Russians as constituting some uncivilized horde sweeping over Europe, tempting as it might be to do so. True, Russia has long been technologically backward compared to most other European countries, but it was only relatively so in a common civilization.

The fury that gripped and laid

Europe waste in World War II was of a different character. It was a fury born of ideology. It was a fury unleashed by people who had the trappings of civilization but whose civilized restraints had been weakened and cut away by ideology. Some account of this must now be made along with the story of further communist expansion and the reasons for the German defeat. ☉

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Next: 14. *World War II: The Bitter Fruit of Ideology.*

### —FOOTNOTES—

<sup>1</sup>See John Toland, *The Last 100 Days* (New York: Random House, 1965), pp. 130-49.

<sup>2</sup>Peter Calvocoressi and Guy Wint, *Total War: The Story of World War II* (New York: Pantheon Books, 1972), p. 267.

<sup>3</sup>David Irving, *Hitler's War* (New York: Viking Press, 1977), p. 363.

<sup>4</sup>Toland, *op. cit.*, p. 9.

<sup>5</sup>Calvocoressi and Wint, *op. cit.*, p. 212.

<sup>6</sup>Irving, *op. cit.*, pp. 403-04.

<sup>7</sup>Hugh Seton-Watson, *From Lenin to Malenkov* (New York: Frederick A. Praeger, 1953), p. 74.

<sup>8</sup>*Ibid.*

<sup>9</sup>*Encyclopaedia Britannica* XXIII (1955), 793R.

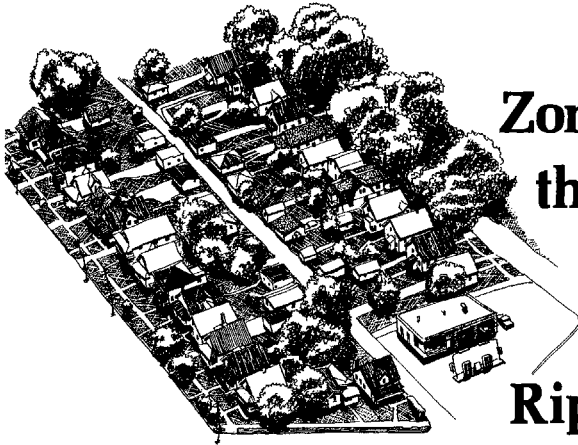
<sup>10</sup>Arthur J. May, *Europe Since 1939* (New York: Holt, Rinehart and Winston, 1966), p. 76.

<sup>11</sup>Calvocoressi and Wint, *op. cit.*, pp. 476-77.

<sup>12</sup>May, *op. cit.*, p. 97.

George C. Leef

# Zoning Laws, the Housing Market and the Ripple Effect



HENRY HAZLITT has called economics a science of recognizing secondary consequences. What he and others who have taken the time to study the working of free markets have perceived is that there is a natural orderliness in uncoerced dealings between men which tends to maximize the well-being of each individual and put resources to their best use. But to accomplish this, a market must be free, which means that each participant must be allowed to decide for himself how he will use his assets, whether personal skills, money, or physical property. Whenever government compels a person to use his property in a way other than he would freely have cho-

sen, this natural orderliness is upset.

The effect of any such tampering with a market may be likened to throwing a stone into a calm pool. Waves of disturbance will ripple outward. Unfortunately, government will now look upon these ripples as new problems calling for its false remedies, and throw more stones in an attempt to neutralize the unwanted and unforeseen consequences of its earlier stone-throwing. I call this the ripple effect; it is nothing other than a failure to foresee secondary consequences.

This article is about one form of governmental interference with free markets which nicely illustrates the ripple effect. It is about zoning ordinances, particularly those which

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regulate the type of housing a person may build on his property. Such ordinances demonstrably have worsened the housing situation in this country, have been a vehicle for much manipulation, unfairness and favoritism, and, of course, have spawned new coercive remedies designed to set aright the problems zoning has caused. What government cannot see is that these "remedies" will even further impair the functioning of the housing market.

### **A Primer on Zoning**

A zoning ordinance is a decree by government that land in its jurisdiction may be used only in accordance with its regulations. These regulations are contained in a zoning map, which designates the permissible uses for property in each zone. For example, a subdivision might be zoned to permit only single-family dwellings on lots of one acre or more.

The original rationale behind zoning was that it was necessary to prevent nuisances. City governments thought it desirable that industry and retail trade be segregated lest their attendant smoke, noise, and traffic impose costs on residential areas. The paradigm case zoning was aimed at would be the construction of a steel mill on a quiet, shady street. Zoning based upon this argument was upheld by the Supreme Court even though its adoption might cause an enormous

loss to the owner of affected property.<sup>1</sup>

Zoning, however, was not limited to the segregation of industrial from residential areas. It was also used to demarcate the boundaries for single- and multi-family housing. When challenged in court, cities argued that allowing apartment buildings to be constructed next to single-family houses would shut off air and light to the latter, increase noise and traffic, and deprive children of places to play. Lurking behind these doubtful arguments (which the Supreme Court also accepted as justifying zoning of this nature) was the objective of protecting the property values of homeowners against the decline which would follow if their area became less exclusive. It will be observed that this concern has nothing to do with true nuisances such as pollution and noise, but rather is an attempt to use the coercive power of government to protect against those losses which free markets must necessarily sometimes inflict.

### **The Law of Nuisance**

The common law had long recognized actions for nuisance when zoning first became popular. This action was based upon the idea, insepara-

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<sup>1</sup>*Village of Euclid v. Ambler Realty*, 272 U.S. 365 (1926). The value of Ambler Realty's holding fell by \$300,000 when its tract was put in a residential zone.

ble from the argument for freedom, that one does not have a right to make use of his property in such a way as to injure or render less fit for use the property of another. If one did so, he might be compelled by a court to pay for the extent of his damage, and the destructive use might also be enjoined.

Now, it cannot be said that nuisance suits ever became a perfect solution to the problem of externalities (the imposition of costs by one landowner upon his neighbors). Legal actions have high transaction costs, and success is never a sure thing. And if the losses were spread over a large number of people—e.g., smoke damage from a steel mill—almost certainly no one of them would feel sufficiently aggrieved to undertake the expense of a lawsuit (at least prior to the advent of the class action). These factors served to deter many from asserting their legal rights.

All this may be admitted without indicting nuisance law for any inherent flaw. Courts and legislatures could have devised new procedures fairer to plaintiffs and new remedies for accommodating competing interests had they seen the necessity to do so. Nuisance law, however, has suffered from extreme neglect during the nation's half-century infatuation with zoning. Even so, there have been noteworthy nuisance cases in the last few years, indicat-

ing that zoning is not the only answer to the externalities problem.<sup>2</sup>

### Zoning vs. Nuisance Law

It is important to compare the way in which zoning and nuisance law operate. Nuisance law is based on the market idea that one should pay for the costs that he causes to be incurred, and works punitively—at least until people come to know what uses will probably cause them to have to pay penalties. At that point, uses for which the expected costs are too high will be deterred. Thus, nuisance law should—or could—lead to the same sort of economic calculation which underlies any business decision. An entrepreneur would decide against building a steel mill in a residential area for the same reason he would decide against building one where it was difficult to get raw materials—the costs would be too high. On the other hand, a contemplated use of land, a grocery store, for instance, might impose small costs on the neighboring owners, but still be a worthwhile project because of large expected returns. It is this sort of

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<sup>2</sup>See, e.g., *Boomer v. Atlantic Cement Co.*, 287 N.Y.S.2d 112. The court there refused to enjoin the operations of a cement plant, but awarded the plaintiffs the amount by which their property had been permanently damaged (based on market value) plus an amount equal to the ongoing monthly costs the plant imposed on them.

rational economic calculation which optimizes the use of resources.

Zoning, however, does not allow individual decisions as to the costs and benefits of the uses of land. While zoning may prevent some nuisances<sup>3</sup>, it lacks the ability to discriminate between nuisances which are worth their cost and those which are not, and prohibits some land uses which would not be nuisances at all. This is so because zoning is not predicated upon a calculation of costs and benefits, but only upon a planning "expert's" notion of how cities ought to be patterned. With zoning, we pay a high cost in efficiency to prevent an unknown but probably small number of nuisances. The planners cannot know how much land will be demanded for each possible use at the time they draw up the zoning map; too much may be allocated to light industry, or too little to multi-family dwellings. As a result, we have waste and inefficiency.<sup>4</sup>

### "Exclusionary" Zoning

Now we meet the villain of the piece. After the courts gave the green light to zoning, people quickly realized what a powerful tool they had been given. All manner of restrictions might be put on the use of land which would guarantee that "undesirable types" would have to live somewhere else. Municipalities frequently enacted ordinances re-

quiring a minimum lot size of an acre or more; often there was no provision for apartment houses and mobile homes, while in some cases they were even affirmatively excluded. Various rationales were advanced to justify these interferences with freedom, but none more than tenuously linked to any proper governmental function of protecting health or safety, or preventing nuisances. At the bottom was always the desire to exclude people of lesser income from the community.

It was in the mid-sixties that the people who are usually so fond of government planning and who enthusiastically support zoning as long as it is "only" commercial interests which are affected, realized that they had created a

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<sup>3</sup>It is not clear that cities would look much different in the absence of zoning. Professor Siegan points out in his book *Land Use Without Zoning* that Houston has no zoning, yet the market has neatly segregated industrial and residential districts simply on the basis of the differing characteristics which attract each type of development.

<sup>4</sup>Zoning decisions, it must be said, are not unalterable. Zoning maps may be changed or variances granted. But it is never certain that zoning mistakes will be corrected through these mechanisms. Whether a zoning change is made or blocked usually does not depend upon abstract considerations of efficiency, but rather on the ability of interested parties to pressure the decision makers. Moreover, these escape hatches from zoning have frequently been used by unscrupulous persons to gain windfalls. See Ellickson, "Alternatives to Zoning", 40 U. of Chicago Law Rev. 681, 701-05.

monster. The shoe was on the other foot now—one of their favored groups, the poor, was being victimized by zoning. The result was a large number of courtroom battles over the legality of what was called “exclusionary” zoning. (All zoning is exclusionary, but never mind.)

### The Legal Outcome

In several cases, courts struck down large minimum lot size ordinances. Those who believe in freedom can applaud such decisions; if a group desires to insulate itself from the rest of society, it may do so by purchasing enough land to achieve that objective, but it is wrong to do so through the use of the coercive power of government. Unfortunately, not all courts and legislative bodies were content with a mere restoration of freedom. Instead, they sought to rectify the problems created by zoning by imposing even more zoning.

The leading case, *Southern Burlington County NAACP v. Township of Mt. Laurel*, comes to us from the Supreme Court of New Jersey.<sup>5</sup> In ringing language, the court invalidated the town’s highly restrictive zoning scheme, and then intoned that every developing community has an obligation:

Affirmatively to plan and provide, by its land use regulations, the reasonable op-

portunity for an appropriate variety and choice of housing, including, of course, low and moderate cost housing, to meet the needs, desires and resources of all categories of people who may desire to live within its boundaries.

The animating force behind the court’s ruling was not a belief in liberty, but rather a simple-minded mathematical notion that each municipality should contain its “fair share” of low- and middle-income residents.

This idea that people should be distributed throughout society in accordance with precise ratios shows forth even more disturbingly in the so-called “inclusionary” zoning ordinance. The concept, which has found some support in academic journals<sup>6</sup>, is to require a developer to include a specific percentage of units for low-income families if he is to be allowed to construct any multi-family project. Such an ordinance was enacted in Fairfax County, Virginia, but was held unconstitutional by the Supreme Court of Virginia.<sup>7</sup>

### Making the Problem Worse

Both the *Mt. Laurel* “fair share” requirement and the “inclusionary” ordinance recognize that zoning has

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<sup>6</sup>See Kleven, “Inclusionary Ordinances—Policy and Legal Issues in Requiring Developers to Build Low Cost Housing”, 21 UCLA Law Rev. 1432.

<sup>7</sup>*Board of Supervisors v. DeGross Enterprises*, 198 S.E. 2<sup>d</sup> 600.

<sup>5</sup>336 A.2<sup>d</sup> 713.

been used to limit the number of places where poor people might live, and seek to remedy the shortage of housing which has resulted. But at best they will be ineffective, and will probably succeed in making the problem worse.

New housing is seldom constructed expressly for the poor. (One exception, of course, is the federal government, but its efforts, such as the famed Pruitt-Igoe project, have been smashing failures.) Rather, the poor benefit from the filtering down of older housing left empty as wealthier individuals move into new or better homes. Careful empirical studies have demonstrated that this intuitively appealing proposition is true.<sup>8</sup> Therefore, to the extent that "inclusionary" ordinances or judicially mandated "fair share" plans operate to decrease the total amount of housing which is constructed, they will work against the poor by diminishing the filtering down of older housing.

There are a number of reasons to believe that these legal mandates will, in fact, lead to less housing construction. Consider first the likely eventuality that, under a "fair share" requirement, an incorrect amount of land would be zoned for low-cost housing—i.e., more or less

than would be so used in an unhampered market. This must be considered likely because a developing community cannot know what sort of commerce will choose to locate in it, and hence the characteristics of the workforce which may desire to live there will also be unknown. Merely because there is a heavy-industry zone, for instance, there will be no reason to assume that some specific percentage of poor people will be employed. The skill and income level of the workforce will vary greatly depending on whether labor or capital intensive industries move in. Thus, the planner's guess will probably be wrong when he zones for housing. If too much land is allocated for one type of housing, too little must be for other types. Some land will be inefficiently used, total construction will be less than we would have had in the absence of zoning, and fewer old homes will become available to the poor.

### Discouraging Developers

Secondly, we must consider the attitudes of the would-be developers ordered by an "inclusionary" ordinance to use a part of their property for the construction of low-cost housing. They may be reluctant to undertake the project thus presented for any of several reasons. With the mandatory low-income units, the overall rate of return may

<sup>8</sup>See Lansing, Clifton and Morgan, *New Homes and Poor People: A Study of Claims of Moves*, Survey Research Center, Institute of Social Research, Univ of Michigan (1969).



not be sufficient to induce the builder to devote his resources to this development as opposed to one where he finds no government interference. Or, the developer may have doubts about the marketability of the non-low-income units if compelled to put them in close proximity to those built for the poor. A related concern might be the possibility of high maintenance costs for the low-income units. Reflection upon the way property frequently is treated in the inner city might well dissuade one from building with the poor in mind as tenants. Yet another obstacle might be the architectural difficulties of integrating the smaller low-income units in the same structure with larger apartments designed for the affluent.

Thirdly, many of the reasons which might make the developer hesitant would also be on the minds of prospective lenders. Even if the former were willing, the latter might not be. The result: housing construction foregone.

Two more arguments tell against these schemes to provide better housing for the poor. So far we have left out the intended beneficiaries of this new housing, the poor themselves. Are many of them likely to be interested? Professor Banfield has pointed out that the inner-city dweller is accustomed to the nature of life there, and probably would feel bored and uncomfortable if trans-

ported out to suburbia.<sup>9</sup> The spaciousness and solitude would be entirely alien, and the preferred entertainments and companionship would be far removed. In short, there is reason to doubt that there would be enough takers for this housing to fill the government's quotas, leading to further waste.

Lastly, it must be emphasized that low-income housing is quite infeasible without government subsidies. The *Mt. Laurel* court expressly noted this. Do we really want the availability of housing for the poor to depend upon the caprices of federal and state budgeting? The government is anything but a trustworthy provider. A change in administration or voter sentiment could halt building in progress and prevent new construction from being undertaken, again to the detriment of the poor. Uncertainty is one of the prices one pays for government dependence.

No doubt there are more arguments, and perhaps more persuasive ones which could be advanced against these plans. All I have attempted to accomplish in this brief space is to show that the government did not, and indeed cannot, take into consideration all of the reactions one might expect to its tampering with the housing market. Not enough housing for the poor?

<sup>9</sup>See *The Unheavenly City*, especially chapter 2.

Why then just zone for more, or compel people to build more, says the government. This simple-minded solution pays no heed to secondary consequences, and forgets that people have minds and wills of their own. That is why it will fail.

### Conclusion

The adoption of zoning as a means of preventing external costs was ill-considered in the first instance. It led to inefficient use of land and at the same time caused many individuals to suffer great unfairness. Once this authoritarian power to restrict the uses to which a property owner could devote his land was acknowledged as legitimate, it followed inexorably that it would be misused to protect well-placed interests and exclude poor people from developing communities. In attempting to solve this government-created problem in the housing market, courts and legislatures have resorted to more of the statist medicine of coercion. "Inclusionary" zoning and "fair share" plans will not make more housing

available to the poor, and will probably have the opposite effect. Then, we may confidently predict, government will react with yet more counterproductive laws and directives.

The radical solution to the chaos zoning has brought to land markets is to eliminate it. To be sure, people then will erect some buildings and do other things with their property that others will not like. If those uses actually interfere with the enjoyment of property by others, those people affected should be encouraged to sue in nuisance to obtain compensation for the damage done. If the offending use does not amount to a true nuisance—an apartment with poor people as tenants, or a building painted an ugly color—that is something people who live in a free society will just have to tolerate as one of the annoyances of life. The alternative to a regime of freedom in land use is zoning with its ever-present potential for waste and inefficiency, inequity and manipulation. Let us choose freedom. ☉

### Building One's House

IDEAS ON



LIBERTY

PROPERTY is the fruit of labor; property is desirable; is a positive good in the world. That some should be rich shows that others may become rich, and hence is just encouragement to industry and enterprise. Let not him who is houseless pull down the house of another, but let him work diligently and build one for himself, thus by example assuring that his own shall be safe from violence when built.

ABRAHAM LINCOLN

Edward C. Facey

# REASONING IN ECONOMICS

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ECONOMICS is a science of human action and moves, with nature, from cause to effect. It can do so because the nature of man is known—that he is a rational animal—and properties that flow from that nature are understood. One of these properties is the means-ends characteristic of man's actions. These acts are charged with man's conscious purpose, and economics studies some of the implications of this.

Acts of man give rise to production and prices. They cause the prices and production to be what they are. If prices change, individuals will respond and instigate changes in the production and sale of the goods involved. The extent of the change cannot be determined

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because the individuals' precise evaluations of the goods are not known.

Therefore it is not possible to draw up mathematical relationships between quantitative occurrences taking place in the market. No mathematical predictions can be made, since the extent of response by acting men to changes about to take place cannot be known.

What *is* known is that men will try to profit. This happens when a sought-for end is valued more than the means thought necessary to achieve it. For example, there will be more quantity demanded if the price of a good is lowered (as the cost to the consumers is lessened relative to their value of it). There will be more quantity supplied if the price of a good is raised (as the revenue

from the sale of a unit has increased relative to the cost of producing it). In these cases, things, other than the price changes, remain the same.

### **The Use of Constructs**

Economic theory operates within ideal situations, called *constructs*, in order to view certain causal tendencies undisturbed by many other concurrent causal factors. In theory one can view developments stemming from a given policy. Then, when those developments do in fact occur, one looks for the causes indicated by theory to see if they are operating.

For example, shortages may be seen following control policies. Suppose that there are presently continuous shortages in Ruritania and the Ruritanian government has a system of price control. Theory shows that price controls lead to shortages. If there is increasing demand for certain goods—buyers willing to offer more money for such goods—but if prices are not allowed to rise in consequence of this, there would then be no incentive for producers to increase the supply of these goods and, thus, shortages would occur. If no other dominating influences are at work, this is *why* there are shortages in Ruritania.

Constructs are not to be confused with models. Models are miniature representations of pieces of reality where the coexistence and relationships of the elements in real-

ity are in the model, as in an architectural model. In a construct, the imaginary situation is one where the elements in it do not coexist in reality. It is not a "miniature" of society because, in society, persons' values, technology and the resources available, both human and natural, are continually changing. But in constructs unless specifically indicated, these things do not change.

The equilibrium construct, wherein people continue to do what they have been doing, is a construct of real importance. With adjustments, acting men are moving labor, land and capital to keep up with the profitable ventures and avoid the losing ventures. So there is an ever-present tendency to move resources to serve the most important ends of the consumers. A state of equilibrium—requiring no further adjustments—is never reached because, for one thing, men's chosen ends keep changing. So the flows of land, labor and capital constantly shift to keep up with those changes.

### **Isolating Causes and Explaining Effects**

In reality, we find many things influencing the price of a good: changing evaluations of the item, the money supply, new labor laws, technological factors, so-called "hoarding" of money, weather conditions, epidemics, wars, and the like. The economist alludes to his

equilibrium construct and then considers one or two of such changes taking place, and the effects that can flow from them while other things remain the same. He deduces various laws and theorems, depending upon what changes he considers, and thus develops the science of economics. When he comes to explain reality, he simply selects from his theorems the ones which are applicable to the situation under study. By giving appropriate weight to each theorem used, he will be able to show *why* the effects viewed in that situation have taken place.

For example, suppose there had been a rapid expansion of the money supply in Ruritania along with the imposition of price controls. The economist will want to relate the conclusions of his monetary theory (about the expansion of money) along with the conclusions of his price theory (about the imposition of controls) to the explanation of the historical results. In this case there are two major causes bearing on the observed outcome. If significant technological improvements have also taken place, then the economist may note them and call upon his productivity theory to further elucidate the Ruritarian developments.

It should be stressed that *from theory* the economist proceeds to the understanding of the historical/statistical facts about a society gleaned by observation. He does *not* get his

*theory from the facts*. These facts result from *many* causes, and it is not possible to control and manipulate the facts, as in a laboratory, to take away or add causal factors so as to derive hypothetical theory that will explain the facts. Nor is it necessary to do so. For the economist already has *his deduced theories at hand*, ready to explain economic occurrences or events depending upon which types are to be explained. All he has to do is to select and combine from among these theories the ones which will best help him explain *causally*, and clearly, the particular economic events that have come to his attention. (4)

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# Builders of the American Dream

THE WORD "myth," as it has come to be understood in America, has a derogatory connotation. It means that someone has been spreading a fake story. But in Europe, as James K. Fitzpatrick points out in the introduction to his *Builders of the American Dream* (Arlington House, 165 Huguenot St., New Rochelle, N.Y. 10801, 374 pages, \$9.95), a myth is a tale coming down from prehistoric times that, likely as not, had some original validity. There really were chivalric knights. If Prometheus never actually reached close enough to the sun to bring fire back to man, certainly some Promethean character was the first to make fire by rubbing sticks together or striking something hard with a flint. Myths were perpetuated around hearths and campfires before men had written alphabets. They were the best that ancient man could do to account for his origins.

In America we don't need myths. We have our history books. But, as

Mr. Fitzpatrick says, presumably echoing Russell Kirk, we do need heroes who represent the high principles and moral convictions of a culture. We need the moral imagination. Luckily we can find it in certain larger-than-ordinary-life characters who have refused to settle for the mediocre, who have tried to exemplify admired characteristics at their best.

Mr. Fitzpatrick might have picked many people who have done much for America. But his test is not who should have become an American myth, but who actually did. George Washington Carver, the black scientist who developed so many scores of ways of making peanuts useful, may have done more for the country than Babe Ruth. But the Babe, with his mighty swing and Gargantuan appetite for hot dogs, captured the public imagination. He may not have been an exemplary man in his private life, but his worshipers took him as a combined Bacchus and

Alger hero who could be forgiven much for his prowess on the diamond and his climb from an orphanage that might have left him an incorrigible delinquent but didn't.

The test which Mr. Fitzpatrick has applied to his thirteen chosen builders of the American dream is a double one. First, the virtue and the value must be there. But, second, there must have been something of a breakthrough nature that made their names part of what Mr. Fitzpatrick calls "the vocabulary of our people."

### **Daniel Boone**

In establishing his double test Mr. Fitzpatrick is almost as interesting in talking about his rejects as he is in seeking the "why" for the popular acceptance of his thirteen builders. His chosen frontier hero is Daniel Boone. Boone was not the first to cross the Appalachians to the "dark and bloody ground" of Kentucky—a man named John Finley preceded him.

In opening up the land between the Ohio and the Mississippi George Rogers Clark did more than Boone for the white settlers who poured West after the Revolution. But it was Boone's flair, his ability to cajole hostile Indians, his reverence in the belief that God had ordained him to open the wilderness, that made him the people's legendary

hero. His reputation was based on a sense of fairness and justice as much as on bravery. And he kept to his mission—his worshipers had to bring his body back from the Missouri territory to take him to a Kentucky graveyard in a hearse drawn by four white horses.

Naturally, George Washington engages Mr. Fitzpatrick's attention as the builder of the dream in our revolutionary epoch. Others solidified the dream—Hamilton, who wrote Washington's Farewell Address, Madison and Jefferson, who gave us our defining charters. But if it had not been for a Virginia planter who had the acumen to combine the strategy of Fabius, the Roman delayer, with guerrilla tactics learned from the American Indians, we would never have had the dream to make palpable. In assessing Washington at his true worth, Mr. Fitzpatrick vindicates Parson Weems' mythologizing biography—after all, Washington could have thrown a dollar across the Rappahannock, and if he did cut down a cherry tree he would not have lied about it.

In the Civil War period Fitzpatrick rejects Sherman and Grant as dream builders, though it is incontestable, as he indicates, that the slugging, victorious Northern generals pioneered the strategies of modern total war. Lee and Lincoln are picked over Sherman and Grant

precisely because they fought as gentlemen. Oddly, they both believed that slavery was doomed and they both hoped that it could be abolished by voluntary action.

Why, in dramatization of the Progressive Era in U.S. politics, didn't Fitzpatrick make Theodore Roosevelt or Robert La Follette his chief protagonist? He chose William Jennings Bryan, who has gone into myth as a blabbermouth and ignoramus. Actually, as Fitzpatrick demonstrates, Bryan was a prairie G. K. Chesterton who had a well-reasoned Distributist ideal for his country. Bryan's essay, "Individualism Versus Socialism," might have been written by Chesterton or by Hilaire Belloc.

The doers rather than the intellectuals take over when Fitzpatrick gives us beautiful portraits of Thomas Edison, Walter Reed, Charles Lindbergh, Babe Ruth, and Eddie Rickenbacker. Will Rogers is something of a mixed bag, part cowboy comedian, part folk philosopher. Walt Disney is treated, interestingly, as a savior who enabled American parents to give their children a not negligible substitute for the myths that our schools fail to prescribe as part of their curriculum. True, it would be better if American children were to know C. S. Lewis, Tolkien and Hans Christian Andersen, or even A. A. Milne. But if we must substitute TV and

the movies for the written word, it is good that we have such Disney feature-length films as "Snow White and the Seven Dwarfs," "Bambi," "Pinocchio" and "Alice in Wonderland."

### **Douglas MacArthur**

Fitzpatrick's thirteenth "builder" is General Douglas MacArthur, who was both doer and intellectual. Why MacArthur rather than General George S. Patton if we must have a modern military hero? Because, as Fitzpatrick says, there is a noticeable reluctance in America to glory in war for its own sake. We prefer a Sir Galahad to a pagan warrior like Thor or Odin. MacArthur was just as good a fighting man as Patton, but he always held out for an economy of means in war. Head-on slugging was something for Neanderthals; MacArthur preferred the flank attack or the leapfrog surprise. He felt there was no substitute for victory, but his idea of victory was to bring habeas corpus to the Philipines (as his father did) or to Japan.

MacArthur was no imperialist. And what about "imperialism" as part of the American dream? We drove Spain out of Cuba, but Mr. Fitzpatrick sees it as more important that our Dr. Walter Reed drove yellow fever out of the whole Caribbean basin. This, it might be noted, includes Panama, which was a fever swamp before we cleaned it up. ☉



# the Freeman

VOL. 28, NO. 2 • FEBRUARY 1978

**Some Ideas About Business** **P. Dean Russell** **67**

Explaining to the customers and other beneficiaries the facts about business profits.

**No Continuing City:  
The Paradox of a Christian Society** **Edmund A. Opitz** **73**

Dislocations on the political and economic level cannot be cured at that level, because they stem from a malady rooted on the spiritual level.

**The Real Exploiters** **Scott D. Palmer** **85**

Not the savers and investors but the confiscators of capital are the exploiters of the poor.

**Regulation and Energy Transport:  
An Unnatural Disaster** **John Semmens** **90**

Widespread economic benefits would follow even partial de-regulation.

**Through the Eyes of a Connecticut  
Yankee** **John C. Sparks** **98**

Concerning the role of freedom in the advance of civilization.

**World in the Grip of an Idea:  
14. World War II:  
The Bitter Fruit of Ideology** **Clarence B. Carson** **102**

Revolutionary socialism involves drastic and forceful measures—total war.

**A Prince Replies to Machiavelli:  
Philip of England on the  
Erosion of Freedom** **E. G. West** **116**

A good man comes to the aid of his countrymen in espousing liberty.

**Book Reviews:**

"The Revolutionary Ascetic: Evolution of a Political Type" by Bruce Mazlish

"Essays on Individuality" edited by Felix Morley

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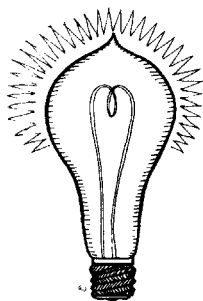
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# Some Ideas About Business



THE amount of money spent by business for economic education continues to increase year by year. But the confidence of the American people in our business leaders, and in the market economy itself, continues to decline steadily.

An exceedingly thorough survey of what people think of business was made by *U.S. News & World Report* in 1976. That survey confirmed what most of us already knew: We American people in general simply do not trust our business leaders or believe what they say. Further, we favor more government controls over them and the economy in general.

A Gallup Poll executive recently informed a group of businessmen

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that 23 per cent of the American people now look upon big business as perhaps an actual threat to our freedom and general well-being. The number of us who hold that disturbing belief today has doubled from the 12 per cent who held it nine years ago, and the trend continues steadily upward.

That's what this article is all about—business and human freedom and how best to communicate the idea that the two are inextricably tied together, i.e., when the market economy of private ownership disappears, human freedom necessarily and automatically disappears right along with it.

Now here's my basic reference point for effectively communicating that idea: All people hold beliefs and ideas. Those beliefs and ideas are

always compelling and are sometimes more precious than life itself; religion, for example. Thus if we wish to be effective communicators in business and economics, we must present our facts and statistics in a manner that will be in harmony with *existing* beliefs and ideas and desires already held by the reader.

You see, it's ideas—not facts and figures—that rule the world. It's what you and I want—not what we need—that determines our actions. The fact that many of the things we want to do are likely to kill us, and perhaps even destroy our families, doesn't appear to be a compelling argument not to do them. As quick examples, I give you cigarettes, alcohol, and fast driving. Since the facts and statistics don't support what most of us want to do in those areas, we simply ignore or deny them.

You understand, of course, I'm not talking about "those dumb people out there." I'm talking about educated you and me. Since that's us along with everyone else, I suggest we accept ourselves as we are and develop and present our economic facts and figures in harmony with it.

### **Pensions and Insurance**

Here's an example of how to go about presenting the economic case for private ownership and profits—even high profits—that's in harmony with the desires of most peo-

ple. The basic statistical fact for this example is quoted from an article by Professor Peter Drucker: "Employee pension funds now own more than one-third of the equity capital of America's publicly-owned companies. . . . And in the truly big businesses (the top 1000 or so companies), employee pension funds already hold majority ownership . . . in most cases."

Congressman Jack Kemp said much the same thing when he wrote, "More than 51 million workers have a vital stake—beyond their jobs—in American business. Their retirement funds are invested in stocks and bonds" of our largest industrial corporations. "In addition, more than 380 million life-insurance policies depend to a great degree on business investments."

All of us—no exception—want low premiums on our insurance policies and security in our retirement years. It's a fact that both of these "universal desires" of the American people are solidly based on the profitability of business. We—not the rich people—are the real owners of our largest companies. Most of the profits are paid to our retirement funds and insurance companies and endowment funds of educational institutions. And those dividends never seem large enough to meet the needs of older people who have retired, younger people who are trying to protect their families by carrying

as much insurance as they can afford, and colleges and universities that are continually searching for funds for scholarships, research projects, and higher pay for faculty. To paraphrase Pogo of comic strip fame, "We have met the owners of big business and they is us."

Can there be any doubt that secretaries and mechanics will find this information and this approach more persuasive than the customary statistical approach favored by most economists and business communicators? Since those customary charts and equations don't usually relate to what the employee thinks and wants, that employee doesn't even see them, much less believe them. But when the answer to the employee's unspoken question "what's in it for me" is "bigger pensions and lower insurance premiums," you're likely to attract his attention. You see, like you and me, that's what *he* wants. At that point, not before, he's willing to listen to your facts and figures that justify profits—even high profits—on various other grounds.

### **Freedom of the Press**

Very few of us actually want to turn the economy over to government. Some do, of course; and again, there's no way you can use your statistics to change the ideas of those persons who want government control and/or ownership of Ameri-

can industry. There's simply no common interest between your wants and their wants. Thus our objective is more likely to be accomplished if we concentrate our efforts on those persons who are not overtly dedicated to the abolition of the market economy of private ownership and profit-motivated production.

Here's a "common interest" approach to this basic "ownership issue" that I've found works fairly well with business and professional people, students, and colleagues in education. Again, it's an approach that aligns your wants with a most precious (and related) want held by the overwhelming majority of the American people. It has to do with helping them keep their freedom to write and print and distribute whatever they wish.

I assume that almost everybody in the United States is in favor of freedom of the press, even though we may have a bit of trouble agreeing on a final definition. I also assume (with even more confidence) that people in general are now increasingly influenced by the appealing idea of common ownership and "production for the benefit of everyone instead of for the profit of a privileged few."

Is there any way we can tie together what we all want (freedom of the press) with the profit motive that undergirds private ownership?

There is, indeed. For literally, there cannot be any freedom of the press except in an economic arrangement where (to select a random example) the automobile companies are privately owned and the producers are motivated by hope of large profits rather than by any particular desire to serve mankind.

### **Private Property**

But how can one possibly relate Ford Motor Company (an example of production for profit) with freedom of the press? Well, begin with this empirical test: Wherever in the world the Ford Company can produce cars for a profit, freedom of the press exists to some degree, and usually to a high degree. But wherever in the world the economic system prevents Ford Motor Company (or its equivalent) from operating for a profit, there is no freedom of the press at all. None. Nor can there be.

Check it out. Where in the world is Ford forbidden to own plants and to produce cars for a profit? Russia? China? Bulgaria? Yes, it's impossible for Ford to own and operate plants in any of the "common ownership" nations that deny the concept of production for profit instead of for service. Do you have any doubt about the free press situation in any country where the means of production and distribution are owned in common, i.e., by the government? You see, the harsh reality of the

"production for service instead of for profit" system is always this: If car companies can't be owned privately, the printing presses can't either, at least not for long.

Now where in the world can Ford own plants and produce cars for a profit? South Africa? Brazil? Turkey? Yes, private ownership and production-for-profit is the basic system in those and a hundred other nations. Now what's the "press freedom" situation in those three "questionable" countries I chose deliberately? Well, there are indeed restrictions. And sometimes the restrictions are severe. But when compared with nations wherein presses and automobile plants can't be privately owned and operated for a profit, the "press freedom" situation is undeniably better in those nations that operate on the profit motive. It checks out in every instance. I can find no exception.

But couldn't it be different? Well, I've never heard of a theory that supports common ownership of the means of production and distribution in general but with private ownership of the presses. I don't see how it could be done.

### **The Ends in View Determine the Means Used**

A government-directed economy of common ownership without totalitarianism is precisely as logical as a market-directed economy of

private ownership without profits. Both concepts are, of course, illogical. It is literally impossible for either "common ownership" or "private ownership" to function if this basic motivation and regulator behind each one is denied. In a socialist economy, how can the government "direct" production unless it compels us to conform to its directions? In a market economy, how can we indicate which product or service is most wanted if each item is equally profitable or non-profitable to producers?

Encouragingly, the socialist-communist intellectuals of Western Europe are now beginning to discuss this reality. Discouragingly, few of them have really faced up to the hard fact that it's always people, not economies, that are controlled. The officials of government can never control and direct *things* but only people. That's you and me. As Arthur Schlesinger, Jr., so aptly phrased it, "A Communist party that regards the democratic process as anything more than a convenience on the road to monopoly power is a phenomenon the world has yet to see."

Now for a quick look at private ownership and profit and its possible impact on another freedom that all of us value highly and will go to any extreme to keep—freedom of religion. In East Germany, production and distribution facilities are gen-

erally owned in common and are used for the benefit of everyone instead of for the profit of a privileged few. In West Germany, the means of production and distribution are generally privately owned, and the profits (frequently enormous profits) sometimes go to just a few owners.

### Who Owns the Churches?

This ownership arrangement—and the system of government necessarily required to support it—is the only essential difference between those two halves of a once-united country. Now in which of those two nations, West Germany and East Germany, would you expect to find the greatest degree of freedom of religion?

The choice isn't even close, either in theory or reality. For it's absurd to imagine that a religion based on private ownership of churches and seminaries can be openly practiced for long in a political system based on common ownership of all lands and buildings. The owner determines the use. The clergy who imagine they can work out "a viable arrangement" with a socialist government dedicated to common ownership have *already* given up their freedom to preach what they think. Most clergymen still believe in private ownership, you know—along with "responsible stewardship." But they can't preach that philosophy in the common-ownership countries.

When you can logically explain to yourself why this is necessarily so, you will have a rather dramatic (and, I find, convincing) story about the necessity and desirability of profits, including high profits, that are basic to the system of private ownership.

You see, your facts and figures on the market economy and profits will then support what the reader wants—a free press and religious freedom. If you can explain to him and her how they hang together, as they do, their attitude toward private ownership and profits is likely to be favorable.

Finally, it's surely desirable to point out to the reader that the profit-motivated market economy of

private ownership also produces more and better products and services at lower prices than does any other known economic arrangement. It's also helpful to tell him and her that these products and services are widely available to almost everyone, if the market is truly free. And the jobs generated by this economic arrangement are the highest paying in the world. But, by and large, the statistics on these economic rewards should be presented last and as a sort of secondary benefit. Surely the most persuasive fact is this: The profit-motivated economy of private ownership offers the only possible arrangement for the existence of human dignity and freedom itself. ☪

### Proof of Worthiness

PROFIT is the proof of the worthiness of production; loss is the proof of its unworthiness, of the waste of the energy and thrift that provided wrong tools of production, or of the job-destroying rapacity of tax gatherers or of workers employed in their operation. The greater the profit, the greater the incentive for expanding production and progress, while loss is the proof that progress has stopped. It is not profit that is evil; it is the enemies of profit who are evil; for if they prevail, millions must die as a spreading dearth of tools blights capacity for survival production.

With tools men can produce ten to twenty times as much as without them, with the tool providers getting but one-twentieth to one-tenth of the multiplied production.

IDEAS ON



LIBERTY



Edmund A. Opitz



# NO CONTINUING CITY

## *The Paradox of a Christian Society*

BENEDICT of Nursia pictured the ideal monastery as "a little state, which could serve as a model for the new Christian society." Those who respond to the call of monasticism and draw apart from secular society are to undertake a new community based upon the bond of fellowship set forth in *The Rule of St. Benedict*. The discipline of the Order was so rigorous as to make the Spartans appear hedonists by comparison. "The life of a monk," Benedict writes, "should be always as if Lent were being kept. But few have virtue enough for this," he adds sadly, "and so we urge that during Lent he shall utterly purify his life, and wipe

out, in that holy season, the negligence of other times."

The "negligence" to which Benedict referred might crop up any time, for example, when it came a monk's turn to do kitchen work. Servers are urged to "wait on their brethren without grumbling or undue fatigue." As an inducement to good behavior they are awarded an extra portion of food. But what about wine? "God gives the ability to endure abstinence" to some; the others are rationed to a pint a day. Benedict yields this point reluctantly. "Indeed we read that wine is not suitable for monks at all," he writes. "But because, in our day, it is not possible to persuade the monks of this, let us agree at least as to the fact that we should not drink to excess, but sparingly."

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No monk is permitted to call anything his own. "He should have nothing at all:" reads the Rule, "neither a book, nor tablets, nor a pen—nothing at all. For indeed it is not allowed to the monks to have bodies or wills in their own power." But the instinct for ownership sometimes broke through this prohibition, and the abbot is instructed to search each monk's bed frequently for concealed private property. "And if anything is found belonging to any one which he did not receive from the abbot, he shall be subjected to the most severe discipline."

Life within the walls outdoes nature in the harshness of its struggle for existence and only the most fit are permitted to enroll. "When any new comer applies for admission," reads the Rule, "an easy entrance shall not be granted him." He must persevere in knocking at the gate, and if he is "seen after four or five days to endure with patience the insults inflicted upon him, and the difficulty of entrance, and to persist in his demand, entrance shall be allowed him . . ."

But the new man must then pass time in each of several decompression chambers lest he get the spiritual equivalent of "the bends." He stays a few days in the guest cell, then graduates to a novice's cell under the surveillance of an elder brother who tells him of "the harshness and roughness of the means

through which God is approached. . . ." After two months of this the Rule is read to him. If he doesn't falter "again he shall be tried with every kind of endurance." Six months of this and the Rule is again read to him; four more months and another reading. And then, after "he shall promise to keep everything, and to obey all the commands that are laid upon him: Then he shall be received in the congregation; knowing that it is decreed, by the law of the Rule, that from that day he shall not be allowed to depart from the monastery, nor to free his neck from the yoke of the Rule, which, after such long deliberation, he was at liberty either to refuse or receive."

Even after this rigorous culling of the unfit the old Adam continued to reassert itself, in ways noted above, and even in physical violence among the monks. This is the implication of Rule LXX: "No one shall take it upon himself to strike another without orders."

### **Benedictine Influence**

Such is the discipline of one earnest and successful effort to fashion a society of and for saints. It endures to this day. Benedictine monks converted England. The important Clunisian reformation of the tenth century stemmed from the Benedictine Abbey at Cluny, France. The Cistercian Order was a twelfth-century offshoot. The influence of

these movements on western culture was immense. "By degrees," says Newman, writing about Benedict, "the woody swamp became a hermitage, a religious house, a farm, an abbey, a seminary, a school of learning and a city."

Let us turn from the sixth century to the sixteenth, from the historical reality of the Benedictines to a literary artist's dream—to Rabelais' exuberant ideal construct of a society of gentlefolk, the Abbey of Thélème.

Gargantua is the hero of Rabelais' masterpiece. He is a mighty leader in battle—among other things—and with the help of friends emerged victorious from the Picrocholian War. His friends deserve a reward for their help, and what is a more suitable gift for a knight than a castle? This will hardly do for Friar John of the Funnels, however. Why not, in this case, find a suitable monastery and make Friar John its abbot? "But the monk gave him a very peremptory answer, that he would never take upon him the charge nor government of monks. 'For how shall I be able,' said he, 'to rule over others, that have not full power and command of myself? If you think,' continued John to Gargantua, 'that I have done you, or may hereafter do you any acceptable service, give me leave to found an abbey after my own mind and fancy.'" This was done, and we are

given a Renaissance man's vision of a model community.

The Thélémistes had but one rule: Do What Thou Wilt. "All their life was spent" writes Rabelais, "not in laws, statutes, or rules, but according to their own free will and pleasure." This did not mean that Rabelais countenanced a lax hedonism; it means that Rabelais had confidence in the gentleman and his code: "Because men that are free, well-born, well-bred, and conversant in honest companies, have naturally an instinct and spur that prompteth them unto virtuous actions and withdraws them from vice, which is called honor. Those same men, when by base subjection and constraint they are brought under and kept down, turn aside from that noble disposition by which formerly they were inclined to virtue, to shake off that bond of servitude wherein they are so tyrannously enslaved; for it is agreeable to the nature of man to long after things forbidden, and to desire what is denied us."

In order to get this kind of a person for his abbey, Rabelais practiced an exclusion almost as rigorous as that set forth in the Benedictine Rule. The inscription on the great gate of Thélème warned off ". . . religious boobies, sots, imposters, . . . bigots." Rabelais wanted no "attorneys, barristers, nor bridling-law-practitioners;" no

"usurers, pelf-lickers, . . . gold-graspers, coin-grippers. . . . Here enter not, unsociable wight, humorous churl. . . ."

But the red carpet is rolled out for others. "Here enter you, and welcome from our hearts, All noble sparks, endowed with gallant parts. . . . Here enter you, pure, honest, faithful, true, Expounders of the Scriptures, old and new; Whose glosses do not plain truth disguise. . . . Strange doctrines here must neither reap or sow, but Faith and Charity together grow." The net result is that at Thélème, "Sound bodies, lined with a good mind, Do here pursue with might, Grace, honor, praise, delight."

### **Mere Freedom—Only That**

The vision is an enchanting one, and even Albert Jay Nock was moved to enthusiasm. "The lover of freedom," he writes in his essay on Rabelais, "the disbeliever in a dull and vicious mechanization of the human spirit, its debasement and vulgarization of life's abiding values, will nowhere find a more abundant consolation and encouragement than in this vision of the humanists. Nowhere, we believe, is there a more elevating, convincing, and wholly sound conception of human nature's possibilities when invested with no more than mere freedom—only that."

Let it be granted that the vision of Benedict of Nursia and the Rule it

inspired reflected a saint's nature and met, to a significant degree, the needs of spiritual athletes for whom life is a period of probation only, and the delights of the world a snare for the soul. Rabelais, on the other hand, although consciously within the Christian heritage, was most at home in that wing of it which embodied those elements of Christianity which have been called the last creative achievement of classical culture. As a humanist, he projected the vision of an ideal society which reflected the new awareness of what a marvelous creature man is at his best—"how like a god"—inhabiting a world only a little less wonderful than himself.

Thus we have, in theory, taken care of those constructed along heroic lines—the saints and the gentlefolk. What about the rest of us, who are neither saints nor heroes, and who have been forced to concede that the gentleman's code—while it works well on the tennis court or in the drawing room—does not fully meet the demands of life on all its levels? What about the run-of-the-mine citizen? It was possible to discount him in classical political theory, whose most enduring expositor, Aristotle, could not conceive of a civilization without slavery. But Christian social theory cannot take this way out. As every man is precious in God's sight, so every man must signify in any Christian

sociology, and he must signify in terms of the Christian understanding of man—a creature who is out of joint with his true nature, who has to negotiate a fallen world, and who must await another order of reality to attain his own fulfillment.

I take it to be a distinguishing feature of Christian sociology that it is non-ideological and anti-utopian. I would call a social theory "ideological" which views man in terms of only one of his aspects; which takes account only of man's material needs; or regards him as a purely spiritual being; or stresses his rationality, or his instincts, or whatever, at the expense of his wholeness. It is obvious that man is a creature of many facets, but violence is done if the wholeness of man's nature is ignored or denied.

### **Social Heredity**

A social theory is "utopian" to the extent that it assumes that man's felicity is attainable in time and within history by a simple reliance on the natural harmonies, when these are uncorrupted by the artificial institutions of civilization. "Man is born free," cried Rousseau, "and is everywhere in chains"—fastened on him by the societies he has fashioned. Actually, society is man's native habitat. Society is as natural to man as water to a fish—neither organism could survive without its natural environment. As a creature

of his genes man is a mere anthropoid; his "social heredity"—absorbed and learned one generation from another—makes him human.

Harmony, according to the utopians, is to be attained in one or the other of two directions; by anarchism or collectivism. That is to say, we might achieve an ideal society if the arrangements between people were the result of freely contracted relationships based on each man's rational calculation of his own self-interest or advantage. Or, on the other hand, social harmony might be attained by the political imposition of a rational plan from the top down which put every man through his paces, according to the superior wisdom of a ruling elite.

In contrast to the position of the utopians—whose dubious premises and faulty reasoning can be used equally well to justify either anarchism or collectivism—man, as he is understood in Christian thought, has his citizenship in two realms, not one after the other, but concurrently. The natural sensory world engages him, obviously. It is an essential part of his environment which he shares with the animals; but man is the only animal who participates also in a non-spatial, non-temporal environment. This means that society has a more than natural and social significance; it is part of the cosmic scheme.

Our economic needs could not be

met if we tackled them individually; and fellowship with others is a demand of our natures. But society has a significance beyond the meeting of our creaturely need for bread and our social need for fellowship; by a just ordering of social life we are, as Augustine put it, "schooled for life eternal."

### City of God

The contemporary Anglican theologian, V.A. Demant, writes, "Perhaps, only because man is not in the Kingdom of God has he to make civilization, but the effort is made because of the pull of his *Patria* in the Eternal World impels him to make a frame of life which upholds him when he is *in via* on earth." This point is, of course, the theme of Augustine's *City of God*, and I quote from Book XIX. "Even the heavenly city, therefore, while in its state of pilgrimage, avails itself of the peace of earth, and, so far as it can without injuring faith and godliness, desires and maintains a common agreement among men regarding the acquisition of the necessaries of life, and makes this earthly peace bear upon the peace of heaven; for this alone can truly be called and esteemed the peace of the reasonable creatures, consisting as it does in the perfectly ordered and harmonious enjoyment of God and of one another in God."

Christian social theory is at odds with most secular social theory, but

this is not the only difficulty; it has intramural problems as well. Yielding to those who demand a Single, Simple Formula, Christian social theory may become a parody of itself in one or the other of two directions—material or spiritual. Although Marxian communism is a purely secular scheme of salvation on the social level alone, and within time, there are some who have seen no incompatibility between communism and Christianity. A more common parody of the full-bodied Christian position is that which vaporizes it into a cloying spirituality. The former seeks to resolve social problems without reference to man's spiritual nature and needs; the latter stresses the inner life as if there could be a healthy spirituality apart from a righteous ordering of human relations. When things are right the inner, spiritual life of individuals is "in play" with the structures of their social life. Josef Pieper has said that the western culture of Christendom might be characterized as "theologically grounded worldliness."

### A Bedrock of Faith

If man is more than a natural and social being it follows that the problems emerging on these levels cannot be resolved, or even understood, on these levels alone. The dislocations that bedevil us on the political and economic level cannot be

cured at that level because they stem from a malady rooted on the spiritual level; they are surface manifestations of a distortion of our beliefs and our system of values. Our society was originally founded on the bedrock of a spiritual faith, and today we must again probe beneath the surface to that same bedrock. But the purpose of going down to bedrock is not to stay there; it is to build from there!

Every Christian believes in spiritual values, but not necessarily in the kind that are vacuum packaged; not in the kind that become the private jewel of some connoisseur for his solitary ecstasy. The path between altar and marketplace has always been a two-way street. Jesus' summary of the law was twofold: love God and love your neighbor, balancing ethical expenditure by spiritual income. It conveys something like a half truth and a whole error to label man a spiritual being. He is, in fact, a spiritual being who eats, feels the cold, and needs shelter; a being whose nature demands fellowship with his own kind. True spirituality cannot exist apart from sound thinking, just dealing, and efforts to improve the quality of human relationships.

We have gone through a period when large numbers of people shared a belief that we could solve just about every human problem by

political action. This is, of course, absurd. But it is a sorry reaction to this absurdity to subtract one's weight and influence from such healthy forces as are now at work in social and political life. This mood of retreat and resignation is a dubious kind of spirituality. In reality it is a new "failure of nerve," and a critic has written caustically about those so afflicted: "Having abandoned genuine thought about problems—especially the new problems that cannot yield to old formulae and incantations—they luxuriate in the feeling of greater purity and spirituality than their fellows."

### The Ancient City

If we reduce spirituality to a kind of private fancy it is easy for us to think of religion and politics as two distinct spheres, as separate as church and state. Such a view would have been incomprehensible to the ancient Greeks. The classic study of the religious and civil institutions of ancient Greece and Rome is *The Ancient City* by Fustel De Coulanges. "The foundation of a city," he writes, "was always a religious act . . . A city was like a little church, all complete, which had its gods, its dogmas, and its worship. . . . Neither interest, nor agreement, nor habit creates the social bond; it is this holy communion piously accomplished in the presence of the gods of the city." It was a social

system "where the state was a religious community, the king a pontiff, the magistrate a priest, and the law a sacred formula; where patriotism was piety, and exile excommunication; where individual liberty was unknown; where man was enslaved to the state through his soul, his body, and his property." Christianity, on the other hand, "taught that only a part of man belonged to society. . . . The mind once freed, the greatest difficulty was overcome, and liberty was compatible with social order."

It is risky to generalize thus about a complex civilization like Greece which underwent several changes of character over the centuries, so let us use Socrates as a type case. Ernest Barker, in his *Political Thought of Plato and Aristotle*, writes "The laws of his country were to him (Socrates) a sacred thing. . . . For him there was no rule of natural justice outside the law . . . what is just is simply what is commanded in the laws." Barker goes on to say that "To a State like the ancient State—both church and State in one—any new religious beliefs, or disbeliefs, resulting in the formation of hostile groups of opinion, were in reality dangerous." The ancient society, in other words, represents the fusing of religion and politics into a unitary state, leaving little elbowroom for the exercise of individual initiative. "The victory of Christianity,"

writes Fustel, "marks the end of ancient society. . . . It was not the domestic religion of any family, the national religion of any city, or of any race. It belonged neither to a caste nor to a corporation. From its first appearance it called to itself the whole human race." Such a religion was bound to have momentous political consequences. Christianity created a new kind of individualism. After some fifteen centuries of its influence, "The Englishman . . ." G. G. Coulton writes, "could carry his own atmosphere with him everywhere; he was self-sufficient *avec sa Bible et son Anglaise*."

### Encounter and Tension

The enlargement of the idea of God, from a family, urban or tribal deity into a Being with universal attributes, developed the kind of religious institution—a church—which must forever confront political institutions in an atmosphere of encounter and tension. The history of Europe is in large measure polarized between the two powers; sword and scepter, crown and miter, Empire and Papacy. Such a dualism is fatal to the idea of the monolithic state. The effect of this polarity is to decentralize power and disperse authority. There is no other way to deal with the root problem of politics—the governance of power. In addition to the division of authority between Empire and Papacy, power



was further fragmented among numerous kings, counts and lesser officials.

In practice, then, during much of the history of Europe, power got itself deadlocked; with the result that there was widespread practice of what might be called "interstitial liberties" by the people. Men were free in the spacious nooks, crannies and crevices of European society long before the law moved up to recognize specific freedoms. We had to wait till the seventeenth and eighteenth centuries for a developed philosophy of freedom.<sup>1</sup>

But just about as that occurred, Christianity as conscious faith lost its hold on men's minds and loyalties, and we began to slide back toward a kind of pseudo-theocracy, or "totalitarian democracy," which, in modern communism and fascism, amalgamates religion with politics and succeeds in debasing both. Politics, in the collectivized state, is a sheer power struggle with no concern for the ends of justice and freedom. Religion, in the collectivized state, must be forced into state service as an opiate of the people. Omnipotent government cannot abide a

universal religion; it must construct its own domesticated variety of secularized religion.

And thus we complete one of those enormous spirals of history. Religion, ethics and politics are once again wrapped up in one package, as they so largely were in Greek speculation. The individual Greek could hardly conceive of ends for his life outside his *Polis*. Aristotle's remark that "man is a political animal" might be translated "man is a creature found only in city-states."

### Beyond Society

With modern men it is different. Our pilgrimage has brought us to a different turn on the spiral of history and we know that we have a potential that projects us beyond society. We have acquired a sophistication which will not permit us to be reabsorbed into our societies without inner tension and conflict. This is one result of our centuries of encounter with Christianity. We may be anti- or non-Christian but nevertheless its effects have leaked into our lives to shape the modern psyche in the region of the values and premises we take for granted. Our mood is mostly Christian, whatever creed or philosophy we profess.

This may sound like a call for a religious revival, and, in a sense, it is just that. But a mere revival of religion is not what we need, unless the religion which is revived under-

<sup>1</sup>The history of the Eastern Church and Empire is another story. Christopher Dawson writes: "The Byzantine Church became so closely bound up with the Byzantine Empire that it formed a single social organism which could not be divided without being destroyed. . . ." *The Making of Europe*, p. 57.

stands that man exists for ends beyond society and beyond history—Augustine's two cities again. Nor will this sort of a revival be accomplished by mere exhortation. Perhaps it will not happen at all so long as men expect to wring utopian results out of any kind of political or economic action.

There are political implications in the concept of spiritual liberty; the practice of justice is urged upon us as a religious imperative, and the relevance of the Christian religion to American institutions has been spelled out many times. But where does economics fit in? At first glance, economics appears to deal solely with the provisioning of our material and creaturely needs and to have no religious significance. This is a misreading of the situation, I believe, so let me say a few words about economics.

### **Economic Activity Fundamental to Human Existence**

Economic activity is fundamental to human existence. A Robinson Crusoe could get along without politicking, but if he did not work he would die of hunger and exposure. Emerging from economic activity are the concepts of rights to property and claims to service around which many political battles are fought. Economics, on the surface, deals with prices, production and the operations of the market as deter-

mined by the buying habits of every one of us.

In reality, however, economics is concerned with the conservation and stewardship of the earth's scarce goods; human energy, time, material resources and natural forces. These goods-in-short-supply are our birthright as creatures of this planet. Use them wisely, as natural piety dictates and common sense confirms—that is providently and economically—and human well-being is the result. Ignore the realities in this area, as we have done in our time, and a host of evils follows. We might be able to live with economic ills if we didn't think we could cure them with political nostrums, but our political efforts aimed at mopping up the consequences of economic mistakes head us in the direction of the Total State.

Every collectivist ideology—from the Welfare State idea to totalitarian communism—is strung on a framework of economic error. People are prisoners of their beliefs, and so long as they cherish a wrong understanding of economics they will be appealed to by one form of collectivism or another. But when they embrace sound economics, collectivism will cease to be a menace.

All creatures take the world pretty much as they find it, save man. Man alone has the gifts which enable him to entertain an idea and then transform his environment in

accordance with it. He is equipped with needs which the world as it is cannot satisfy. Thus he is compelled to alter and rearrange the natural order by employing his energy on raw materials so as to put them into consumable form. Before he can do much of anything else, man must manufacture, grow, and transport. His creaturely needs man shares with the animals, but he alone employs economic means to satisfy them. This is an enormous leap upward, for by relying on the economic means man becomes so efficient at satisfying his bodily hungers that he gains a measure of independence from them. And when they are assuaged, he feels the tug of hungers no animal ever feels: for truth, for beauty, for meaning, for God.

### **A Means to All Our Ends**

Whatever may be man's capacities in the upper reaches of his nature—to think, dream, pray, or create—it is certain that he will attain to none of these unless he survives. And he cannot survive for long unless he engages in economic activity. At the lowest level economic action achieves merely economic ends: food, clothing, and shelter. But when these matters are efficiently in hand, economic action is a means to all our ends, not only to more refined economic goods but to the highest goods of the mind and spirit. Add flying buttresses and

spires to four walls and a roof, and a mere shelter for the body develops into a cathedral to house the spirit of man.

There are two schools of thought which incline to dismiss economics, but neither has much excuse for being except as a protest against the errors and onesidedness of the other. On the one hand are the economic determinists, who argue as if man were merely a soulless appendage to his material needs. For them, the modes of production at any given time decree the nature of man's institutions, his philosophies, and even his religions. Economics, under this dispensation, will lose its independence and become a mere tool of the State.

On the opposite side of the fence is a school of thought which appears to regard it as a cosmic calamity that each soul is sullied by connection with a body which must be fed and kept warm. Spiritual purity will not be attained until there is deliverance from this incubus; but until that happy day let us try to forget that man has creaturely needs which only the products of human labor can satisfy. Nothing in this scheme disposes men to pay any attention to economics! But there is a third way.

The mainstream of the Judeo-Christian tradition is characterized by a robust earthiness which makes it as alien to the materialism of the

first of the above alternatives as to the disembodied spirituality of the second. Soul and body are not at war with each other, but are parts of our total human nature. It is the whole man who needs to be saved, not just the soul. Creaturely needs are, therefore, legitimate; and being legitimate they sanction the economic activities by which alone they can be met. They cannot be met by political action. The market economy presupposes a moral order, and it needs a framework of law to punish breaches of the rules. But granted this institutional framework economic activities are self-starting and internally regulated. Political action which goes deeper into economic life than maintaining the Rule of Law commits the injustice of giving economic advantage to some at the expense of others.

Christianity is a religion of world and life affirmation. It includes the dimension of eternity but it is not "other worldly." It can therefore extend diplomatic recognition to the

temporal order and respect the integrity of its political and economic rules while insisting at the same time that ultimate felicity is not to be attained by any conceivable improvement of that order. Utopia is not within its purview.

Contemporary social and scientific theory is now at least opened toward this idea, having shed the utopian expectancy of last century. Theories about people and things are no longer expected to hang together with the neatness of a proposition in Euclidean geometry. The rationalist may demand that life conform to his verbal formulations of it, but reality refuses to be thus coerced. Anyone can draw up a blueprint for an ideal society composed of bloodless abstractions who are expected to perform like puppets. But when we deal with man in all his concreteness, the rules must be tempered with artistry. In religious terminology, this artistry is the practice of the traditional religious virtues of mercy, compassion and charity. ☉

### A Dangerous Paradox

IDEAS ON



LIBERTY

WE must beware of the dangers that lie in our most generous wishes. Some paradox of our nature leads us, when once we have made our fellowmen the objects of our enlightened interest, to go on to make them the objects of our pity, then of our wisdom, ultimately of our coercion.

LIONEL TRILLING

Scott D. Palmer

# Real The ^ Exploiters

ONE of the most dangerous economic myths of our time is the notion that the relative affluence of the Western industrial nations is somehow responsible for the grinding poverty of the so-called "third world." According to this view, greedy Western businessmen who invest in underdeveloped countries "exploit" the inhabitants by paying them starvation wages and draining their country of its natural resources. The effect of this double exploitation, so the liberal doctrine goes, is to reduce a once happy and prosperous people to slavery and abject destitution. As a solution, we are told that the ill-gotten wealth of the richer nations, especially the United States, must

be globally redistributed to raise the living standards of the poorer lands.

There is only one thing wrong with this liberal fairy tale: it is false. Foreign investment in underdeveloped countries, far from reducing the inhabitants' standard of living, has made it possible for them to enjoy a material abundance which they otherwise could not even have imagined. It is easy to understand why dictators in these countries make the irresponsible charge of "exploitation" to justify seizure of foreign capital; it is not easy to understand why this accusation is so readily accepted by intellectual leaders of the West.

Let's examine the three main parts of this doctrine of economic exploitation.

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### Are Workers Exploited?

Does Western business exploit the laborers of underdeveloped countries? The liberal reasoning seems to go like this: A business will not invest in an underdeveloped country unless it has something to gain by doing so. If someone gains, then somebody else has to lose. Therefore, since foreign business gains by investing in underdeveloped countries, the inhabitants must lose; and one way they lose is by being forced to work for lower wages than are paid in the advanced countries.

The first thing to notice here is that the liberals have misunderstood the nature of voluntary exchange: they believe that if one person gains, another must lose. That *is* true if the relationship between the two people involves force or coercion. If you have an apple and I grab it away from you, then I have gained and you have lost. But suppose that, instead of using force, I offered to trade an orange for your apple and we made a voluntary exchange. Then I would have gained, because I wanted the apple more than the orange. If I hadn't wanted the apple more than the orange, I wouldn't have made the trade. But *you* have gained, too, since you wanted the orange more than the apple—otherwise you wouldn't have made the trade. In a voluntary exchange, both participants benefit and nobody loses.

What is true of trading apples for oranges is also true of trading labor for wage payments. If a worker in an underdeveloped country feels that the wages an employer offers him are too low, then he is free to devote his time and effort to tasks which he regards as more profitable. This is true whether or not the employer is a foreigner. If, however, the worker agrees to a specified wage, then he demonstrates that the money he gets is worth more to him than the time and energy he gives up; otherwise, he wouldn't have agreed to the exchange. Since he voluntarily enters into and profits from the exchange, there are no rational grounds for claiming that he is "exploited."

Does the worker in a backward country make a high wage by Western standards? No; and this brings us to another argument which purports to prove that he is exploited. Suppose that a worker in New York City makes \$5 an hour, while a worker in Venezuela makes only \$1 an hour for exactly the same work. If the man in New York City is being paid what his work is worth, then doesn't that prove that the Venezuelan—who does exactly the same work—is being exploited to the tune of \$4 an hour? After all, if it's the same job and it's worth \$5 an hour in New York, then it must be worth \$5 an hour in Venezuela.

The fallacy in this argument

comes from a failure to understand that the value of labor—or, for that matter, anything else offered for sale—is not objective and unchanging but is determined by market conditions. For example, here in southern Indiana eggs are much less expensive than they are in New York City. Because of local market conditions, i.e., a large supply of readily available farm products, the price of eggs is lower here than in the New York market which draws supplies over great distances. In the same way, the large supply of labor in underdeveloped countries, often combined with a lower level of skill than would be found in the advanced nations, tends to push down the price of labor (wage rate) for local workers.

Does the worker in such a country make as much money as he would like to make? No. Obviously, from his point of view, the best wage would be a million dollars an hour. The company, on the other hand, would prefer to pay him nothing at all. The fact that worker and company are able to arrive at a compromise figure provides no justification for the claim that either is "exploiting" the other.

### **Are Natural Resources Drained?**

The next part of the exploitation doctrine was the accusation that industrial nations drain underde-

veloped countries of precious natural resources without proper payment. Let us make it clear at the outset that we are discussing a situation in which a foreign firm has discovered and brought into use a natural resource which was previously unused. What are we to make of this charge?

Let's think about it for a minute. The fact that the resource in question was previously unused means, most likely, that no one had seen a way to profitably make use of it—and hence had not bothered to assert any claims to ownership. If a foreign firm discovers a profitable use for it and makes a claim, then—for a moment, at any rate—it has made the *only* such claim to ownership and is at least the *pro tem* owner. When the use for the resource becomes known, as it inevitably will, others may also wish to exploit the resource, and may make competing claims to own it.

It is easy to see that, since the country's government has legal jurisdiction, the competitors for title to the resource must look to that government to arrive at a reasonable adjudication of their claims. But if anyone regards the settlement which results as unreasonable—as unjustly benefiting the foreign firm at the expense of local claimants to the resource—then he should lay the blame where it belongs. The local government,

not the foreign firm, decides on the conditions under which the firm may use the resource. If there is exploitation, then it is exploitation devised and sanctioned by the country's rulers, and the problem is not between the people and foreign business but between the people and their government.

### **Do the Rich Rob the Poor?**

The third and final charge was that Western business has caused the poverty of the underdeveloped nations, and that the industrial countries are rich because they have taken advantage of these unfortunate lands. We have already seen, in the preceding discussion, that neither of the first two charges will stick: the West is "not guilty" of economic exploitation. But rather than simply washing our hands of the matter, let's ask the question: Why are the industrial nations rich and the third-world nations poor?

Why does an American who pushes a button eight hours a day enjoy a higher living standard than an Asian peasant who pushes a hand-plow sixteen hours a day? It will do no good to say that the American works harder; he doesn't. The answer is that the American has more and better tools to work with than the Asian peasant—tools which enormously magnify the productivity of his labor. And there is only one way that these tools can be

made available: through *capital accumulation*.

Capital accumulation means a diversion of labor and resources from purposes of current consumption to the creation of tools needed for higher future productivity.

Consider the simplest case. Robinson Crusoe, washed up on his island, may find that if he labors ten hours a day chasing rabbits he can enjoy a diet of two rabbits a day. Suppose he then decides that if he had a bow and arrow, he could enjoy a diet of ten rabbits a day. In order to get the bow and arrow, he must use some of his time and labor to make it: time and labor he would otherwise use to chase rabbits. Thus, if we assume he devotes five hours a day to chasing rabbits and five to fashioning a bow and some arrows, he has reduced his present standard of living to one rabbit a day in the hope of having ten rabbits a day when he finishes the tools.

What is true of Robinson Crusoe is true of whole societies. The only way for a poor nation to improve its living standard is by increasing the number and quality of tools which its people work with. Not just any tools will do, either. If Crusoe, like so many governments of third-world nations, decided to build a steel mill or an atom bomb instead of a bow and arrow, we would justifiably question his sanity. The tools required are those to help satisfy the



most urgent needs of the consumers—in this case, Crusoe's need for food rather than steel.

Since present living standards must be curbed in order to produce tools (accumulate capital), we can see that the process must take place slowly if at all in a land whose inhabitants are already on the verge of starvation. It would be a tremendous stroke of good fortune if the members of some other society were willing to provide the local laborers with the tools needed to increase their production and make better lives for themselves. And that is precisely what happens when a business from an advanced nation invests in an underdeveloped coun-

try. Anything, therefore, which discourages such investment or makes it impossible, only prolongs the poverty and suffering of the people.

The people of underdeveloped countries *really are* the victims of exploitation—but not by Western business. Who are the real exploiters? The real exploiters are their rulers, who make economic progress impossible by punishing domestic success and by taxing, regulating, and nationalizing foreign investment right out of the country. The victims who would avoid such exploitation must first throw off the yoke of socialist dictatorship. Then Western business may serve them.⊕

### The Failure of Planning

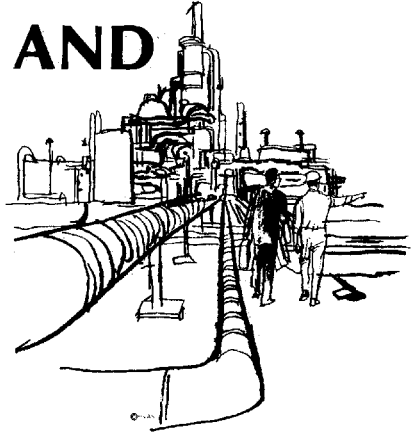
FREEDOM-LOVING people, in the name of preserving and spreading freedom, are unwittingly financing and otherwise sustaining socialist policies which thus far—sensational projects and schemes apart—have yielded little else than social injustice, unemployment, poverty, and conflict. Though the Indian planners and their overseas supporters are full of promises and hope, these policies can hold out prospects of nothing better for the future. . . . Statist policies in India might have been abandoned long ago, but for the intervention of foreign aid, which kept the coffers of the prodigal replenished as they became depleted, the moral support lent to statist policies by visiting "experts" from overseas, and the colossal gains in money and power which these policies yield to the politician and civil servant.

IDEAS ON



LIBERTY

# REGULATION AND ENERGY TRANSPORT: An Unnatural Disaster



THE REGULATION of pipelines for gas, oil and other substances is so complex that the regulation of other modes of transportation appears simple by comparison. Jurisdiction is scattered over a multiplicity of government agencies, any one of which can obstruct and delay, but no one of which can give full clearance to proceed. All this, in pursuit of the general welfare. Yet, few would maintain that the general welfare is being served by the collage of policies growing out of such regulatory efforts.

Regulation is born of the idea that the market is deficient in some way. These claimed deficiencies run the

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gamut from notions of consumer ignorance and impotence to producer ignorance and impotence. Proponents of increased regulation may be found simultaneously contending that without government controls producers not only would collude to gouge the consumer, but would engage in destructive competition as well. Only with the beneficent guidance of the regulatory commission can justice and economic efficiency be assured—or so the theory goes.

If such assertions be true, one must wonder how study after study can continue to uncover a recurring pattern of regulation-bred stagnation, corruption, inefficiency, and protectionism. A revealing defense of regulation was made in 1974 by the General Counsel of the Interstate Commerce Commission.

Four arguments were raised on behalf of regulation. First, that the regulatory agencies usually yield, sooner or later, to the inevitable changes in the business environment. Second, that the delays occasioned by the ICC, for example, were not that bad. Third, that the waste engendered by regulation is not as bad as it could be. And finally, that regulation will not be as wasteful in the future as it has been in the past; the "new" waste mandated by government controls will not be as gross as the "old" waste.

Despite its indefensibility, regulation persists. The impact that the regulatory system has upon stationary transportation conveyances, primarily for shipment of energy products, will be the focus of the remainder of this report.

### **Imperfect Competition and Incompetent Regulation**

In approaching the issue of competition, or rather, its imperfections, as a rationale for government involvement, many proponents begin by constructing an abstract *perfect* competition. This *perfect* version includes such notions as an infinite number of buyers and sellers in the market, as well as instantaneous information on supply and demand conditions. Under such a system, it is agreed that no regulation would be necessary. However, no such sys-

tem exists. What does exist is *imperfect* competition. The role of regulation then becomes clear. By careful adjustments to this imperfect environment, it is claimed, the regulatory commission can remove the detrimental consequences and more nearly satisfy all needs.

To be sure, the interveners have the best of the phraseology. After all, the government is seeking to correct the *imperfections* of the market, to insert deliberated *planning* and *controls* in place of the implied chaos of *unplanned* and *uncontrolled* markets, to insure *fair* competition. While phraseology may be useful as propaganda, it is impotent to deal with the economic realities.

The *unplanned* and *uncontrolled* market is something of a misnomer. Actually, the market is a reflection of the continuous give and take of numerous participants, *each of which is making its own plans and exercising its own controls*. This very multiplicity of plans provides the flexibility that regulation lacks. And this is why unregulated markets consistently exhibit superior performance in meeting the needs and wants of consumers.

Contrary to official dogma, it is the planned and controlled segments of the economy that are most chaotic. The only competition that has been "improved" by regulation is that between the growing number of government agencies and bureaus

fighting over jurisdictional authority. The major result of this achievement has been to divert effort from productive activities to legalistic wrangling between the regulated businesses and the various regulatory bodies. The net result, of course, is a reduction in the aggregate wealth of the community. This is no mean accomplishment, but it is questionable whether a reduction in wealth is socially desirable. It certainly is not the objective sought by the intervention.

Like some automaton gone berserk, the regulatory commissions have frequently transformed their initial programming from preservation of competition to preservation of selected competitors. There are two predominant techniques. One is paternalism. The other is bureaucratization. Paternalism is evidenced when, in order to prevent "predatory" or "cut-throat" competition, the regulatory agency bars new entrants into the field and restricts or discourages innovations. The case-by-case methods followed produce no clear guidelines for the regulated industry. At the same time, vested interests of existing firms in market shares are treated as a property right. A would-be competitor's proof that it could provide more efficient service is not considered a reason for allowing such a firm to enter the controlled market.

Bureaucratization is a more in-

vidious force in the destruction of competition. Even those on guard against paternalistic inclinations fall prey to this vice. The key manifestation of this phenomenon is the government's voracious appetite for paper. Not only do bureaucracies produce mountains of paper, but they consume them as well. The regulated firm is constantly besieged to produce more reports, provide more statistics, complete more forms. Smaller firms are hardest hit by this imposed cost of doing business. Not too surprisingly, the larger firms may be the only ones able to meet these costs.

The reduced competition brought about by the very actions of the regulatory authorities then becomes their reason for increasing regulatory powers. Nor can the heretofore protected competitors feel at ease. The regulatory agency may, at any time, turn on them with accusations of attempted restraint of competition or monopolistic practices, though, in truth, they may only have been following the dictates of the regulatory authorities.

It is apparent that regulation, to date, has been incompetent to achieve improved competition. Incapable of assuring good performance in the monitored industries, regulation thrashes about in aimless fashion lopping off consumer options, raising the costs of doing business, insuring misallocation of

scarce resources, rewarding inefficiency—all to the detriment of the general welfare.

### **The Price Is Not Right**

The prospects for transmission corridors over the next twenty years are anything but clear. With only limited proven reserves foreseen, the anticipated "need" for transport facilities is largely a shot-in-the-dark. It is not irrational to ask why we need new pipelines if we only have ten more years' worth of natural gas to pump through them. Undisclosed in these estimates of reserves are the assumptions regarding price. If current pricing policies are continued, the prognosis is indeed bleak. On the other hand, studies have indicated that with higher prices, the supply of gas would be stretched out for centuries.

There is nothing magical about this. Neither is it evidence of a vast conspiracy to withhold supplies. It is merely the working out of the simple economic law of supply and demand. Supply varies directly with price, while demand varies inversely with price. Therefore, if the price is held below the uncontrolled market level, the quantity demanded will be stimulated and the quantity supplied retarded. Such is the current policy, which inevitably has led to depletion of reserves and the forecast shortages.

Analyses which purport to dem-

onstrate that the supply of natural gas or oil is not sensitive to changes in prices are absurd. Yet, such analyses have spawned a so-called compromise solution based upon "rolled-in" pricing and the vintaging of oil and gas. Periodically, the various governmental agencies involved in this price control will classify various sources of supply as "old" or "new" based upon the initial year of production or discovery. The consequence, over time, is a plethora of classifications, including "old new," "new new," ad nauseam. Once a source of supply has been classified, its price is fixed, based upon the costs incurred in finding and producing it. This, its advocates explain, will enable the producer to recover his investment without allowing him an "unearned windfall" profit—thus preserving incentive while preventing price gouging.

Historical cost as a basis for determining the necessary price to insure incentive for future investment is a fallacy. Investments must earn replacement costs if the product being generated is to continue to be supplied. If, during the time span that the investor is recovering his original cost, the replacement cost of the necessary capital equipment doubles, the "recovered" capital will only purchase half the replacement resources. In an inflationary environment, controls such as those imposed in the rolled-in price system

result in the consumption of capital. This consumption of capital will inevitably result in shortages and diminished future potential.

### **Capital Punishment**

The long-term consequences of price controls and rates of return based upon historical cost have been dramatic. The inability of regulated firms to earn replacement costs on their investments in capital equipment has led to continual trips to the capital markets. This heavy borrowing has boosted debt/equity ratios, raised the cost of borrowed funds, and lowered the credit ratings of the heavy borrowers. A sample of electric utilities showed a drastic decline in credit ratings in the ten years between 1965 and 1975. In 1965, 19 per cent of the utilities sampled had AAA bond ratings. By 1975, there were none.

It is an unhealthy trend, if the services provided by these firms are deemed to be necessary. It is obvious that the "fair" rate of return policies have been inadequate to maintain the levels of service to which we have become accustomed. For example, in the decade of the 1960's, the average return on investment among Standard and Poor's 500 corporations was nearly 13 per cent. The average return on investment for oil and gas producers was 6 per cent—this despite the Federal Power Commission's nominally al-

lowed rate of 15 per cent. Obviously, with such a ratio persisting over time, it is inevitable that capital will flow out of oil and gas production and into other ventures.

It is a sorry state when public policy has the effect of channeling scarce resources away from the production of necessities in order to make them available for what may be considered more frivolous enterprises. However, the proposed remedy of mandatory credit allocation or government loan guarantees is no solution. Government absorption of available credit has been a large contributor to the problem. In 1960, government borrowings accounted for less than 13 per cent of total borrowings. By 1975, government borrowing amounted to more than 25 per cent of the total. Increasing government intervention into the credit markets, even for such seemingly salutary purposes of securing funds to finance production, transmission, and distribution of heating oil, natural gas, electricity, and the like, can only worsen this problem.

### **Need For Economic Calculation**

As regulation displaces the market allocation of resources, the government will have no means of calculating investment priorities, no means of assessing the cost/benefit returns, no rational method of allocating resources. Government takeover of pipelines or government

backed loans would not really lower the cost of financing. Such maneuvers only result in shifting the burdens of finance onto third parties. Economic goods have costs, resources are limited. The selection of one set of alternatives precludes the use of those resources on another. Access to government credit or the Federal printing press does not create wealth, it merely transfers it from one holder to another.

Under the complex system of regulation that pervades the economy, there is no way of knowing which transfers serve to redress and which serve to perpetuate imbalances and distortions created by previous waves of interventions. It is safe to say, though, that public policies will be conservative and cautious when it comes to innovations. The regulatory concept is inextricably tied to the continuation of the present into the indefinite future. In fact, one might go so far as to say that the idea of regulation cannot conceptualize innovation.

Each successive wave of transportation technology has found a separate regulatory body set up to control all or part of a particular mode of transport. There is no comprehension of the generic service performed by all modes. Consequently, there can be no comprehension of unforeseen methods of accomplishing the same ends. Public policy is firmly founded upon this myopia. When

new techniques come along, they are almost invariably opposed and, at the very least, delayed by regulatory policies. As the regulatory commissions intrude more and more into the economic activities of the nation, capital for innovative ventures will disappear.

### **Socially Unacceptable**

In the final analysis, the deliberated controls that regulation seeks to insert as a substitute for market forces, far from being a stabilizing factor that aids long-term planning, have the effect of creating chaos and aborting long-term planning. The multiplicity of government agencies, bureaus, commissions and departments, each having a veto over a regulated firm's proposed measures to meet the needs of its customers, insures a lack of coherence to public policy. In the pipeline transportation system, some lines come under ICC regulation, some under FPC. It doesn't stop here, though, as other agencies—FEA, EIA, EPA and ERDA—play a direct role in blocking various operations of these transport modes. On top of this, the Federal Departments of Transportation, Commerce, Justice, Labor, and now Energy, each have their own fiefdoms of regulatory authority. Add to this the various comparable state agencies and the judicial system and it is plain to see that nothing will ever be done easily or

quickly, if in fact it ever gets done at all.

The path of the regulated firm is strewn with obstacles. Cataclysmic changes in public policy on short notice are a frequent source of disruption to a firm's planning efforts. Short-term political considerations have also played a prominent role in the making of regulatory decisions. And it is not unusual to find that a business's rational efforts to provide for its future needs will serve as the impetus for government-imposed penalties. Firms which were perspicacious enough to anticipate the shortages of natural gas and make provisions for supplementary sources of power were among the first to be curtailed by regulatory mandate, while profligacy and lack of future planning on the part of others were rewarded by special dispensation in government allocation decrees.

Of course, the distortions brought about via the regulatory system are not confined to business firms. The ills of this system have spilled over into all segments of society, aggravating social and economic problems. The price controls on sales of interstate gas have had the effect of encouraging industries to move out of the populous northern cities to relocate in the sun belt where intrastate gas is available. Left in the wake of this migration are worsening unemployment and economic

decline in the central cities. Meanwhile, the ceiling on prices of domestically produced oil and gas has had a net economic impact of shifting the production, and the jobs and capital that go with it, to overseas producers. This also aggravates unemployment problems, creates massive debt obligations to foreign countries, and places enormous capital investment in areas vulnerable to capricious and unstable foreign regimes.

### **Why Proposed Remedies Are Bound to Fail**

Few people will deem these social and political repercussions desirable by-products of regulatory policy. Yet, the remedial actions currently under consideration hold forth no indication that anything has been learned from the unpleasant consequences of past regulatory interventions. On the one hand, the Carter Administration is proposing to penalize consumption, while many critics are urging subsidies to production. Each of these measures alone uses only half of the market mechanism. Utilized together, we would enjoy the ludicrous charade of bureaucrats attempting to simulate market conditions by a combination of taxes and subsidies. In their comprehensive study, *The Economics of the Natural Gas Shortage, 1960-1980*, MacAvoy and Pindyck demonstrate that of the options



discussed, deregulation, by far, provides the most efficient solution to ending the shortages of natural gas.

A little further down the line of ridiculous "solutions" to regulation-caused problems are the forced conversion to coal and the sharing of shortages. Spreading the shortages around will only serve to entrench the problem. Allocations by government dictate override the ability of anyone or any firm to plan for its own needs. Enterprise is stifled while everyone must await the latest government decrees. The incentive for foresight is diminished and reliance upon the vagaries of chance is propagated. Under priority systems which favor residential use of gas, sections of the country will face 90 to 100 per cent curtailment of industrial users by 1980. Coal cannot always be substituted for gas. But unemployment and reduced output can be, as the events of last winter have shown.

The evidence is clear; regulation has produced negative consequences. Misallocation, waste, unemployment—all have regulation to blame for at least part of the prob-

lems. Acknowledging this, though, it is difficult to know where to begin.

So enormous is the mess that it is easy to imagine conspiracies that have perpetrated "fake" shortages for sinister purposes. Unfortunately, this line of thinking has gained some credence. Energies that ought to be directed at dismantling the barriers to production and satisfaction of urgent needs are, instead, directed at devising suitable punishments for the "guilty." The prevention of "windfall profits" has taken on such overwhelming dimensions that its proponents seem prepared to insure a net loss to society in order to guarantee that no one will gain inordinately from the widespread economic benefits that would follow even partial deregulation.

Until the regulatory ills can be cured, or at least ameliorated, the prognosis for the industries involved will remain bleak, long-term planning an exercise in futility, and society forced to bear unnecessary economic costs without substantive benefit. ⊕

**Editor's Note:** Mr. Semmens offers a 3-page bibliography of books and articles documenting his study. That bibliography is available from *The Freeman* on request.

# Through the Eyes of a Connecticut Yankee



THE great storyteller, Mark Twain, describes a nineteenth-century Yankee from Connecticut who suddenly and unaccountably finds himself back in the time of the legendary King Arthur some 1400 years earlier. But the Yankee retains his knowledge and experience from the nineteenth century.

The story relates his frustrations when he realizes he is living in an environment without benefit of the knowledge and development of more than a dozen centuries yet to come. His personal "advanced" intellectual plane, however, enables him to become the major magician of King Arthur's court, surpassing the legendary Merlin. The situations are intriguing and humorous, as only Mark Twain could make them.

Mr. Sparks, now Chairman of the Board of Trustees of The Foundation for Economic Education, is an executive of an Ohio manufacturing company.

If Mark Twain had lived to write his story today, the Connecticut Yankee would have had a much bigger bag of tricks—a whole century of added knowledge in the various fields of science, medicine, construction, engineering, electronics and all the arts and crafts.

Whatever Twain's underlying purpose in weaving the fascinating and humorous tale, we certainly can use his method to compare our lives with the lives of our ancestors in order to learn what has caused the differences.

Imagine yourself, say a modern businessman, suddenly turned back a century in time. You are not a scientist, but you have a good layman's knowledge of many scientific developments in tools, drugs and medical-surgical procedures. You have enjoyed the electronic accumulation and communication of

data for decision-making in your business. You know about automotive and jet air travel, have watched television, have vacationed with your family at a variety of the world's interesting places.

Without warning, and armed with nothing but the memory of your prior existence, you awaken one morning in some mid-western U.S. city in the 1870's.

Months go by as you undergo a sequence of unusual and exasperating experiences. At first you want to tell everyone what the 1970's are going to be like. But then, how could you convincingly describe television to your new acquaintances? And your wild tales of a heart transplant and corrective eye glasses that are worn on the eyeballs merely bring laughter. The description you try to convey of an airplane—a machine that will fly and transport four hundred people from New York to Miami in less than three hours—may gain you comparison with another dreamer, Jules Verne. But Jules Verne at least acknowledged he was *dreaming* of the future, while you claim to have stepped back out of that future.

Wisdom suggests that you keep to yourself your knowledge of the late twentieth-century ways of doing things. But the frustration only grows. You miss the comfort of so many "taken-for-granted" modern

conveniences not yet invented or developed in the 1870's. An infection that could have been cured quickly by a simple antibiotic shaves you for weeks. A new friend's wife dies of smallpox, common then, but almost unknown a hundred years later. The hours of hard physical labor and tedious mental effort leave little time for recreation. Sanitation measures are primitive at best. Hot summer days are without air-conditioned relief, winter a time of illness due to the prolonged and bitter chill. The crude lighting discourages evening work or even reading. How you miss the ring of a telephone, the spot news by radio, the family car for business and pleasure.

Missed most of all are your family and friends of that future which you've vacated. That, plus the realization that you will never again enjoy the conveniences and comforts you had known in the late twentieth century.

In your loneliness you speculate as to these differences in lifestyle. Are they just a matter of time? You recall the history of civilizations in decay, while others were growing or advancing. And most vivid in your mind is the twentieth-century decline of England as a world power—the high taxation, government ownership of certain resources and services, government medical services, and other coercive interventions in

the lives and affairs of the people. You would recall discussions of the danger of following in the United States the path taken by the United Kingdom. You conclude that time alone is not the key to the rise or fall of civilization. And it occurs to you that enormous power vested in the hands of ruling bodies—even with the best intentions—produces tragic results.

You try again to explain how life might be (was) one hundred years hence, but none will believe. You try to produce the twentieth-century wonders you have known, but you lack the tools, the skilled workers, the capital, the market demand and marketing facilities, the means of transport and communication. In short, you lack the accumulated saving and investment and the technology for an advanced industrial economy with its miraculous specialization and division of labor.

It finally dawns on you that freedom is your return ticket to the twentieth century. Freedom of people to act peacefully and to receive and own the fruits of success—and to personally suffer the consequences of failure—will produce a society of enormous visible progress, both material and non-material.

You note that there are some entrenched customs and laws peculiar to the nineteenth century that have a depressing effect on personal freedom. But the seeming paradox is

that the nineteenth-century curbs on personal freedom are far less numerous than you had known in the U.S.A. in the late twentieth century. So you begin to see that while freedom is the key, it is not an instantaneous provider of the good life.

The removal of a tyrant and the proclamation of individual freedom does not change the horse and buggy to a new Chevrolet overnight. *It takes time in a climate of freedom* for individuals to develop their creative talents, with the resultant material and peripheral benefits. No one can lay a measuring stick alongside a civilization and observe: "It takes twenty-three and one-half years of freedom to produce an electric refrigerator, or fifty-six years for black and white television." No one can program in advance precisely what a free individual will do. But given an atmosphere of freedom, and with no more government than needed to keep the peace, there is every reason to anticipate fantastic material results. There can be no reasonable doubt of the direct correlation in the U.S.A. between the minimal government interference of the nineteenth century and the explosion of material progress of the twentieth century.

It is important to avoid confusion. It is the atmosphere of freedom that unleashes man's ingenuity when he

learns that he can reap increasing rewards as he better serves the desires of his fellow man. It is *not* the transferring of wealth by government force from those who produce it to those who do not; that destroys incentive. Do not credit unemployment payments, social security benefits, compulsory unionization, or progressive income taxes for the progress of the twentieth century. For it is not these government restrictions and compulsory welfare programs that bring about a high level of living; theirs is quite the opposite effect.

So let us further consider this twentieth-century paradox in the U.S.A.—a higher level of living than known throughout recorded history, even though individual freedom has been on the wane. But this is not so strange when one considers that neither the *new* presence nor the

*new* absence of freedom will bring about instantaneous changes. We do not sufficiently understand the miracle of freedom to create it out of nothing in an instant. Nor have we yet managed the total destruction of its manifold blessings. And the great question is: Are we living on borrowed time? Or perhaps the even greater question is this: What am I to do in my time?

It should be clear by now that we have the knowledge and the means to transport ourselves and our posterity *as far backwards* through the centuries as we're willing to go with coercive governmental regulation and control over every aspect of our lives.

Or, we can try freedom, in the faith that the Yankee ingenuity inherent in every individual can lead to a higher level of civilization than man has yet dreamed. ☉

### Struggle Inward

THIS, then, should be the goal of all individuals and groups. Instead of struggling outward for equality, struggle inward. Let us spend our energies enlightening ourselves and our own groups, beautifying our own neighborhoods, curbing our own propensity to violence and crime. Instead of trying to cultivate virtue in others, concentrate on cultivating virtue in ourselves. As this is done, true worth will command respect and the last barriers will fall. This goal can be achieved not by force and violence, applied by law from without, but only by free will and discipline exercised under law from within.

IDEAS ON



LIBERTY

ROBERT W. BLAKE,  
"Equality under Law vs. Equality by Law"



# World in the Grip of an Idea

## 14. World War II:

Clarence B. Carson

## The Bitter Fruit of Ideology

THE IDEA that has the world in its grip is at its roots a simple, even a simplistic, idea. It is the notion that what ails us is the pursuit of self-interest by individuals, a pursuit which leads to the dispersal of energies, diversity, and competition, even conflict. The cure for this, so the proponents of the idea claim, is to forge a social unity in which all efforts will be concerted toward the realization of common goals. Government is the means they employ

*In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.*

toward this end, and the method is to remove the legal, social, and cultural props which enable the individual to act in his own interest; removal of those props makes it necessary for him to act for common goals. Revolutionaries propose to bring this about by drastic and forceful measures. This articulation of the idea is commonly called revolutionary socialism.

World War II was a titanic struggle between opposing varieties of revolutionary socialism, between Soviet Communism and Nazi Germany. It was a struggle for dominance over Europe, particularly cen-

tral and eastern Europe (and on the Japanese side for the dominance of Asia and the Pacific). Hitler's variety of socialism was the more virulent of the two. Soviet Communism is inclined toward subversion, conspiracy, and the plodding pace of a projected historical development. Nazism was the vision of a single man, something to be realized in his lifetime. Hitler was the apotheosis of National Socialism, its personification and deification. Communism is supposed to be victorious in the world by the process of historical determinism. National Socialism's victory was supposed to be the destiny of a single man—and the German people.

### **No Time for Subtleties**

Hitler grasped the rudiments of the idea that has the world in its grip; the subtleties eluded him, and he had no time for them. His socialism came to him by way of osmosis, something filtered into him from the intellectual climate of the time. He tacked his prejudices on the rudimentary idea, and the result was National Socialism. Whatever of intellectual gloss it had came from such fringe German thinkers as Houston Stewart Chamberlain, Oswald Spengler, Alfred Rosenberg, Karl Haushofer, Friedrich Nietzsche, and Richard Wagner. It should be noted that these were not socialist thinkers, as such, and most

of those with a bent toward socialist ideology who entered the Nazi movement were either sloughed off or played minor roles in the government. Hitler's socialism was not Marxian socialism or Revisionist socialism or any other of the generally accepted varieties. It was Hitlerian socialism, i.e., National Socialism—Nazism. It was revolutionary, militant, anti-communist, racist, nationalist, and martial.

Left to his own devices, it is doubtful that Stalin would have gone to war against Nazi Germany. During their sixty-year span, Soviet Communists have gone to war against a major power only once voluntarily, and that was against Japan when it was apparent that the days of the Japanese Empire were already numbered. Soviet leaders have preferred to let "you and them" fight rather than to become embroiled in a major war. Communism is bent toward warfare, but it is civil war, not foreign wars in the usual sense. In the first place, communists make a kind of war against the people over whom they rule. In the second place, they foment strife in other countries which can break out as civil wars. The indications are that the leaders of the Soviet Union like very long odds in their favor when they go to war. The odds, if any, were on the side of Germany in 1941.

By contrast, Hitler sought war rather than avoided it, and major

powers were the only ones really worthy of his steel, although he was quite willing to crush any small power standing in his path. Moreover, Hitler frequently flouted world opinion and flaunted his obnoxious racial ideas before the world. His contempt for other peoples was hardly held in check. Yet, there were times when Hitler apparently longed to be not just the conqueror but the hero of the people of the world. Perhaps, he longed to be loved, as most men do, but was led by what he conceived to be his mission to do unlovely things. There is a vast amount of evidence to the effect that he had great personal magnetism and unusual leadership abilities. Time and again generals came to his headquarters discouraged and depressed, ready to give up, only to go forth from their session with Hitler inspired with a new zeal to fight on. It was not just sycophancy that led those around him to speak of his powers.

### **To Gain the World**

Anti-communism was his chosen route to world veneration. If the world would only see him as he wished to be seen it would see him as its savior from the menace of communism, or so he hoped. His assault upon Russia was to be a crusade against everything he hated: Bolshevism, international socialism, the Slavs, and the seat of

what he conceived to be the Jewish conspiracy. In this struggle, he believed the rest of the world would join him if it only once understood what he was doing. Much of the world saw all too clearly what Hitler was doing in Europe, however, to hear what he was saying about Bolshevism. In any case, all that Hitler offered was a Germanic socialism to replace the "international" variety of communism.

World War II was, according to most savants, a total war. It was war waged not only between military forces but against civilians. It was a war in which vast resources on all sides were mustered behind the war effort. It was waged by propaganda, in battle, on land, on sea, in the air, and, above all, against cities. It was a war of conquest by the Axis powers and one which could only be ended by unconditional surrender, the Allies proclaimed. It derived its character from totalitarian ideologies and entailed the clash of socialist titans. How socialism gave the war its character needs now to be made clear.

Socialism attacks the foundations of civility at many different levels. Socialist analysis, whether Marxian, Bernsteinian, Hitlerian, or whatever, deals with society, and hence the people who compose it, as if it were a machine. It speaks of classes or races, of industry and agriculture, of labor, of the proletariat, of



the bourgeoisie, of nations, and so forth as if these were things mechanical in nature. It pits class against class, race against race, nation against nation, and group against group for dominance and control. It dehumanizes, reducing man to that accidental portion of himself by which he may be classified in some mechanical fashion. It decivilizes. (Statistics applied to man is the ultimate mental act of dehumanization, for it reduces man to a number. And it is hardly an accident that the use of statistics has grown with the spread of socialism, for they are a prime means of manipulation and directing change. Statistics ought to be used in public with the same restraint as profanity, for they profane man by reducing him to a virtual nullity.)

Another way that socialism attacks the foundations of civility is to weaken or destroy the inherited culture. Culture is society's way both of liberating and restraining man. Socialism, whether of the communist or Nazi variety, proceeds by undermining the received religion, morality, education, literature, and customs and either destroying or controlling and redirecting them for its purposes. The removal of civilized restraints was a major contributor to the ferocity, the extent, and the atrocities of World War II.

But it may be well to examine in

some more depth the assault of socialism on the foundations of civility at a rudimentary level. The most basic and direct attack of socialism is upon private property. (That the Nazis gave other ideological grounds for their confiscation and control of private property did not alter the primacy of their assault on property.) This set the stage for much else that followed, including the atrocities of World War II and after.

### **A Small Atrocity**

A simple story may help illustrate the point. This is the story of a small atrocity, an atrocity so insignificant beside the monstrous ones of World War II that it would not appear to be worthwhile to tell it. Yet it is a poignant story and, if I mistake not, one pregnant with meaning. It happened in a village not far from Bonn, Germany on a raw overcast morning in March of 1945. The scene was the kitchen of a small house. In one corner of the room sat an old German couple, huddled in their winter clothes against the chill weather. In the center stood a couple of American soldiers, cooks for a mortar platoon of a heavy weapons company. I stood aside, watching. One of the soldiers was picking up china, piece by piece, dropping it to the floor and breaking it. The old couple cringed and mumbled to one another. The soldier silenced them with a menac-

ing look and turned to us to say, "I've been in this war since North Africa, and the Germans are to blame." He proceeded to smash the rest of the china. It may not have been china that would have brought a great price in the market, but it was such as they had, and by the looks of them they could not easily replace the broken pieces. It was, as I said, only a small atrocity.

Whatever moved him to this destructive act, this callous soldier had grasped, however unwittingly, what lay at the root of the cause of World War II and was re-enacting it. I viewed his act at the time with a mixture of horror and disgust, but I was helpless to do anything about it, for I had no authority and was there only temporarily awaiting transportation to my platoon. What hurt me, of course, was his wanton disrespect for property, someone else's property at that!

I had been brought up to respect property, to use it with care, and to value it: mine, the family's, and that belonging to others. It was a lesson drilled into me as a child and reinforced on at least one occasion which I recall by a rare whipping from my father. One of my brothers and I had been throwing pieces of baked potatoes at one another. There were several violations going on, but I suspect that the most serious was the misuse of baked potatoes. They were intended to be

eaten, not as missiles in fraternal conflict. I was taught respect for much else besides, but I now understood that undergirding and buttressing the rest was respect for property.

### **Disrespect for Property**

Socialism inculcates disrespect for property, not in the abstract, perhaps, but in the concrete. Socialists hold real property owners in contempt and particularly owners of productive equipment. When they are in power they confiscate property or take effective control over it. In theory, this might do no harm to the property, but in fact it is quite otherwise. One of the Catholic popes is supposed to have said something to the effect that property ownership may not be good for the individual but it is very good for the property. Whatever the merits of the first part of his proposition, the insight in the second part is sound: No better way has ever been found to have property cared for, protected, and used properly than private ownership of it. Property held in common is frequently abused and neglected, being protected mainly by such habits as have been formed in caring for private property. State-owned property can attract little more respect than the state that owns it; not much, one gathers, as the state becomes bloated with the tasks it takes on and poorly performs.

There is an essential nexus between property and man. It is the means of his livelihood, the base of his production, the goods with which he trades, and the foundation of his independence. Individual life depends upon it, and social life withers without it. Socialism breaks this connection between man and property. Socialists fulminate against property and the propertied, describe them as capitalists or "finance capitalists," as exploiters, and, by implication, hold property in contempt.

Property is a vital extension of the man who owns it. It is his lifeline to and from the world about him, a buffer from the outside and one of his most effective means of reaching out to others. In socialist theory, man's individual ownership and control over property is only an incident in his historical development. Property is, therefore, separable from the individual who owns it. So it is, of course, but if it is done against his will the effects are devastating. A man's heart is separable from the rest of his body, but if it is ripped out he must surely die. Man does not necessarily die when his property is taken away, though he may; but he is bereft of his main protection from, and means of contributing to, those about him.

My central concern here, however, is with the extended impact of the loss of respect for property and a

general assault upon it. There is no way to launch an assault upon a man's property without at the same time assaulting him. To put it another way, lack of respect for property is part and parcel of lack of respect for the owner of it. Every property owner surely feels this; it tends to be one of his reasons for going to the defense of his property.

### **A Protective Shield**

There is a shield, so to speak, which protects each of us from violation by others. Property is the outworks of the shield. It is the boundary line of our real property, the walls of our house, the enclosure of our vehicles, the door to our rooms, and the clothes that we wear. The innerworks of the shield are the awe in which we hold life and the respect for the individual and what is his. Loss of respect for property precedes or accompanies the destruction of the outworks of the shield. Respect for the individual and the awe with which life is held crumble as the outworks are breached. Of course, the assault upon religion, morality, and the received culture accompanies the assault upon property in socialist lands. This assault cuts away the respect for property, for the individual, and for life, too.

The ferocity and brutality of World War II, then, was a consequence of the erosion of respect for property, for the individual, and for

life. It frequently occurred in that order, too. The trespass, confiscation, and alienation of control over property from the owner frequently preceded the assault upon the individual and the callous taking of lives. The Jews in Germany had generally lost the bulk of their property or control over it long before they were shipped to such places as Auschwitz to be exterminated. First, they lost control over department stores, publishing houses, and other types of businesses. Then they were denied employment in many areas. Only after they had lost whatever means they had once possessed for protecting themselves were they subjected to the "final solution." Totalitarianism proceeded in Germany by divesting the people in general of the control of their property.

The serving up of Russian soldiers in vast numbers as cannon fodder had been preceded by the confiscation of their property and increasing control over their lives. The individual counts for nothing, Soviet propaganda had taught, and the leaders demonstrated the validity of the thesis using men as if they were nameless things in combat. A Russian detachment in retreat marched by the place where a Russian soldier was lying dead. Someone asked if they were not going to get his identification. "For what purpose?" asked the officer in charge. "So that you can notify his family," was the

reply. "Oh, that's not necessary," the officer said, "when they don't hear from him after awhile they'll realize he is dead." Tens of thousands of German prisoners disappeared into the Soviet Union, never to be heard from again. The government of the Soviet Union proposed to plan every aspect of the economy for a huge empire, yet could not be bothered to perform the most basic task of government of notifying the next-of-kin of those who died in its charge.

### **First Trespass, then Death**

Though we may not ordinarily think of it that way, much of the maiming and killing of war could not occur until property had been trespassed. This was certainly true for World War II. The millions of civilians that were wounded and killed by bombings and other sorts of bombardments were usually initially the victims of trespass first. Those under shelter were usually secure until the building around them had been struck, set fire, or demolished by shells or bombs.

Perhaps it can be visualized this way. One of my most vivid images from World War II is of rooms nakedly exposed to onlookers when the outer walls had been blasted away by bombs or shells. It sticks in my mind that I gazed upward once, though it may have occurred any number of times, into a delicately-appointed bedroom indecently ex-

posed for all to see. The three walls left standing were pink, the bed had one leg hanging over that portion of the floor that had been bombed away, and there was a dresser and table or stool. It was a room such as might have been lived in by a young girl. The trespass in such cases, and the violation of civilized rules and decorum, was virtually simultaneous with the maiming and killing.

This is not a brief against war as such. It is intended, however, to call attention to those ideologies which hold property, and hence life, in contempt, and by so doing turn war into a catastrophically destructive affair.

The boundaries of nations, too, serve as a shield protecting the lives and property of people within them. The trespass of these boundaries is, by extension, a trespass upon property. National boundaries were violated at will during World War II. Indeed, this was frequently done with callous disregard for the rules of relations among nations: without warning, without any declaration of war, and without restraint. German armies invaded Poland, Norway, Denmark, the Netherlands, Belgium, Luxemburg, and other lands in this fashion. Nor did the Soviet Union, Japan, and Italy observe civilized rules for beginning wars against nations. In consequence of such violations millions of persons were carted off to serve one or another nation as slave laborers for

their war machines. The condition, once again, was the trespass of property.

### The Defeat of Nazism

One variety of socialism—Nazism or Fascism—went down to defeat at the end of World War II. That portion of the ideology which was racist and militaristic was as nearly discredited as such things ever are. Nazi Germany was thoroughly, completely, and ignominiously defeated. By the first of May, 1945, Allied armies had swept back the once proud German armies onto German soil and that was virtually all occupied. Hitler and his entourage were in an underground bunker in Berlin, a city shattered and devastated by repeated and prolonged bombings and now under siege by Soviet artillery. The roads out of the city were closed and no regular airports were available. In desperation, Adolf Hitler and his bride, Eva Braun Hitler, committed suicide. The SS detachment was hard put to get together enough gasoline to burn their bodies. Much of Germany was in ruins, and the power of the Nazis had evaporated. The rubble in the streets was the remains of Hitler's ambitious plans for architecturally redesigning such cities as Berlin.

The reasons for the defeat need some amplification. At its height, the Nazi empire had encompassed

most of continental Europe from the Urals to the Atlantic with outposts in North Africa. That portion not occupied was under governments generally friendly to Germany if neutral (Spain, Sweden, Vichy France, etc.) or allied with the Axis (Hungary, Bulgaria, Rumania, etc.) excepting mainly the Soviet Union. What had been European civilization save the British Isles, was under German sway. Never before in history had continental Europe been so near to being under a single power.

Hitler had under his control many of the most highly developed lands in the world, a goodly portion of the most skilled peoples in the world, and experts of unsurpassed ability. German chemists were among the best in the world. (They probably could have made *ersatz* water if hydrogen and oxygen had been in short supply.) Only oil, among major natural resources, was not generally available in sufficient quantity to fuel his war machine. Even so, the potential was there for a Fortress Europe which would have been impervious to all outside power. Why that did not happen needs some explanation.

There were undoubtedly many contributing factors to the German defeat. Historical post mortems have already explored them, and they will not occupy our attention here. But the crucial fact is that

Hitler never mustered most of the might of Europe behind him. Most of the peoples never identified with the Nazi cause. Such cooperation as they generally contributed to it was grudging at best and something less than half-hearted as a rule. Indeed, Hitler's only significant effort to get the willing support of the peoples of Europe was to picture his as an anti-Communist crusade. That was obviously a flawed position, however. He might have been able to overcome the implications of the Nazi-Soviet pact but not the fact that he was at war with Britain and the United States, among many other non-communist nations. Moreover, his own cruel regime was hardly an improvement over Soviet Communism.

### Submission Sought

In the main, though, the Nazis did not even seek the willing aid of many of the peoples of Europe. On the contrary, the peoples were held in contempt, and the Nazis sought only to beat them into submission. This was in keeping with the ideology. Nazism was *national German socialism*, and all who were not predominantly Nordic or German were believed to be inferior peoples. The cruel treatment by the SS of the peoples in eastern Europe made the Nazis as feared and hated as the Communists had ever been.

Hitler refused on a number of oc-

casions the importunings of his officers to be permitted to recruit an army from the Russian prisoners of war. Armies of other nations that fought with Germans enjoyed only a kind of honorary status as equals. Hitler generally held the Italian, Hungarian, and Bulgarian soldiers in contempt as inferior to the Germans. Not surprisingly, many of the Italian officers were eager to get out of the war, and the armies from central Europe were at best fair weather friends.

In short, the Nazis failed to muster the support of Europe because of their ideology. Their national racism could only be repugnant to all others. It appears that Hitler could only have mustered the willing support of Europe, if at all, by abandoning his ideology. At any rate, he did not get it, and without it his armies were overcome by forces from the outside even as they were weakened by resistance from within Europe.

### **Promises Unfulfilled**

Hitler had promised to build a "folkish state." He had promised to augment the power of the individual by merging it with the collective, to elevate the German people by freeing them from their submission to the Treaty of Versailles. They would become masters by identification with him as the symbol and embodiment of themselves. There is no doubt, either, that many Germans

felt the surge of power as they heard or saw Hitler speak, as they massed to participate in the performance of the Nazi rituals, as they looked on marching German soldiers and won their first great victories. The might of the German collective was palpable at the Nuremberg Party rallies, as hundreds of flags waved above, as searchlights played upward in the skies, as thousands lifted their arms and shouted "Sieg Heil" in unison. For a few years, many, perhaps most, of the German people were caught up in the pomp, the pageantry, and the promises of a collective beatitude.

If so, their exaltation was short-lived. Hitler did not build a "folkish state." He built a state over which Nazi Gauleiters ruled and the "folk" were an instrument of state to be used as their rulers decided. The subjection of other peoples and the importation of forced labor may have hidden from Germans for a time the fact of their own subjugation. Collectivism augmented the powers of the rulers at the expense of those who were ruled. Much of the substance of Germany went into building the instruments for and fighting a war. The more the people built the less they had. However glorious the early victories, more and more of the young men were required to go to war. As the casualty lists lengthened many families came to know the ultimate cost of

war. None could deny the curtailment of their lives as they spent more and more of their time in bomb shelters to escape the fury of the bombs. The Germans were not a master race, as Hitler had told them, they were only a mastered people.

### **Disillusionment**

Just when individual Germans realized this there is no way of knowing for a whole population. What we do know is that by the end of the war many Germans were glad indeed to have done with Hitler and his obsessive vision. In the last weeks of the war the armies of the Western Allies were often greeted by the Germans as heroes. As American tanks, trucks, and jeeps drove through many towns and cities people lined the sidewalks to wave and cheer. This would have been a smart thing to do in any case, but it had the look of spontaneity about it. At least at the moment of their arrival, the Western Allies were being treated as liberators.

In the east, a different kind of story was taking place. Germans, and others, were fleeing by the hundreds of thousands before the advance of the Red Army. Taking whatever they could with them, they fled toward the west seeking refuge from an army bent on plundering and pillaging and destroying what it would. Sometimes before,

but certainly as soon as they could lay down their arms, German troops too sought to make their way west to surrender to the Western Allies. For several days after the end of the fighting, the relics of the German armies poured through the lines of the Western Allies making their way to places of internment. Men clung to the sides of whatever vehicle they could find that would enable them to evade the clutches of the Red Army.

The defeat of the Axis in World War II did not significantly loosen the grip of the idea that has the world in thrall, not for long anyway. True, the hold of the Nazi variety of revolutionary socialism was struck off from western Europe, but in central Europe the grip of revolutionary socialism, communism, was established and tightened.

### **Tyrannizing Poland**

World War II had broken out in the wake of the German invasion of Poland. The British and French governments had declared war on Germany in an attempt to preserve the territorial integrity of Poland. When Hitler heard just before the end of the war that a Soviet sponsored puppet government was being set up in Poland he remarked the irony of it all. The British and French had gone to war against him to save Poland, and now the Poles were being turned over to Soviet



tyranny. Indeed, any who would ponder the meaning of World War II, and the impact of the idea that has the world in its grip, could do no better than begin with Poland.

Poland has for several centuries been a bending and bent buffer between Russia and western Europe. Time and again Poland has been the scene, or a part of it, of the clashes between European powers and the butt of the treaties by which they ended their conflicts. If ever a people deserved the compassion of men of good will it must surely be the unfortunate Poles. Shortly after the Nazi invasion of Poland the Soviet Union invaded from the east. The country was then partitioned. Part of the country was then "Nazified" while the remainder was being "Sovietized." The full fury of the SS was let loose in the Nazi "zone of occupation." Poland's relatively large number of Jews were subjected to a pogrom the like of which had never been seen before. Some of the most notorious Nazi concentration camps were located in Poland, and the most vigorous extermination was carried out there. Thousands of Jews died in an heroic stand against the Nazis in the Warsaw Ghetto. The resisters were wiped out. Nor were Jews the only victims: numerous Poles were dislocated to allow Germans to move in; intellectuals and potential leaders got vicious attention from the SS.

### **The Final Blows**

As the Red Army advanced upon Warsaw the Polish resistance movement made a determined effort to expel the Germans from the city. The Soviet armies halted their advance and waited, apparently with malice aforethought, for the Germans to wipe out the resistance. Roosevelt and Churchill appealed to Stalin at least to allow British and Americans to airlift aid to the resisters, but their appeal fell on deaf ears. On top of all this, thousands of Polish officers were shot down in cold blood by Soviet forces at the Katyn Forest Massacre. All that remained to be done to destroy Poland, it would seem, would be to sow the soil with salt.

At any rate, the Soviet Union had an eviscerated Poland upon which to impose its regime in 1945. The Soviet Union won the battle for central Europe, a main arena in the contest of World War II. Communist regimes were subsequently imposed on Hungary, Rumania, Bulgaria, Yugoslavia, Albania, and Czechoslovakia. Estonia, Latvia, and Lithuania had already lost all semblance of independence by being incorporated into the Soviet Union. Part of Poland was incorporated into the Soviet Union, part of Germany into Poland, and a communist regime established in East Germany. Finland, too, lost territory to the Soviet Union.

Could it have been otherwise? Possibly. It was the style, in some circles anyhow, after World War II to blame the fall of these countries to communism, particularly that of Poland, on decisions made at the Yalta Conference of Stalin, Roosevelt, and Churchill in early 1945. This is almost certainly a misreading of history. The concessions made to Stalin at that conference were largely in recognition of a *fait accompli*. The Red Army was already in or marching into these countries. It was the presence of the Red Army that made it possible to establish communist regimes generally.

### **The Channel Crossing**

The decision that sealed the fate of central and eastern Europe was almost certainly made in 1943. It was the decision to concentrate British and American forces in England for a cross-channel invasion of France in 1944. It was the decision for the English channel, so to speak, over the Adriatic and Aegean Seas. The signal for the decision was given in December of 1943 when General Eisenhower was appointed Supreme Commander of Allied Forces and moved from Italy to England to prepare for the cross-channel invasion.

The Western Allies had already established a second front on continental Europe in 1943. It was in

Italy. Winston Churchill favored an assault on the "soft under-belly of Europe," probably by way of the Adriatic. Militarily, the most strategic target in all of Europe was the Rumanian oil fields. Once the oil reaching German forces from Rumania and Hungary was cut off the days of the German air force, tank divisions, and guided missiles would be numbered. Politically, if the assault had been made in this way, much of southern and central Europe might have been spared the occupation by the Red Army, and the communist regimes. Instead, armed forces were concentrated in England, and in the course of 1944 much of the military force was withdrawn from Italy to attack westward in support of "Operation Overlord," the cross-channel invasion. The die was cast many months before January of 1945.

### **Post-War Communism**

The spread of communism greatly accelerated in the wake of World War II. The devastation of western Europe, the defeat and demilitarization of the Axis, left power vacuums in much of the world. Wherever these occurred, communists saw them as opportunities for expansion, either by way of joining coalition governments—and occupying key positions in them until one party emerged triumphant—or by fomenting civil wars. Not only had all of

eastern, most of central, and much of southern Europe fallen to communism, but with Japan defeated and demilitarized, China became communist. As colonies were cut loose from demoralized European countries, these became prime targets for the spread of communism.

Communism was the only significant variety of revolutionary socialism in the world after World War II. But communism is not the only va-

riety of socialism in the world. The idea that has the world in its grip has two faces: one is revolutionary socialism; the other is evolutionary or gradualist socialism. It is appropriate now to turn our attention to some examination of the working of evolutionary socialism. ☉

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Next: 15. *Sweden: The Matrix of Tradition and Gradualism.*

### Potential Dictators

It is customary to call the point of view of the advocates of the welfare state the "social" point of view as distinguished from the "individualistic" and "selfish" point of view of the champions of the rule of law. In fact, however, the supporters of the welfare state are utterly antisocial and intolerant zealots. For their ideology tacitly implies that the government will exactly execute what they themselves deem as right and beneficial. They entirely disregard the possibility that there could arise disagreement with regard to the question of what is right and expedient and what is not. They advocate enlightened despotism, but they are convinced that the enlightened despot will in every detail comply with their own opinion concerning the measures to be adopted. They favor planning, but what they have in mind is exclusively their own plan, not those of their citizens. They want to exterminate all opponents, that is, all those who disagree with them. They are utterly intolerant and are not prepared to allow any dissension. Every advocate of the welfare state and of planning is a potential dictator. What he plans is to deprive all other men of all their rights and to establish his own and his friends' unrestricted omnipotence. He refuses to convince his fellow-citizens. He prefers to "liquidate" them. He scorns the "bourgeois" society that worships law and legal procedure. He himself worships violence and bloodshed.

IDEAS ON



LIBERTY

E. G. West

*A Prince Replies to  
Machiavelli:*

PHILIP OF ENGLAND  
ON THE EROSION  
OF FREEDOM



THEORETICALLY, the husband of the Queen of England is supposed to be strictly neutral and nonpolitical in his public statements. In practice, it appears that the Prince can no longer stand in the wings when large areas of British freedom are, to him, seriously at stake. Some may readily explain why he should now approach the bounds of protocol. For a constitutional monarchy such as Britain's depends upon the working

of an open and free democratic system; and should any form of totalitarianism threaten, it could brush the monarchy aside and either abolish or seriously emasculate it—as has happened in so many European countries. But another explanation might be more respectful, as well as more accurate: True patriotism in such high quarters *should* now be expressing itself, regardless of the consequences for the personal security of the private palace. And the Prince *has* such courage.

Although the Prince's main

Dr. West, Professor of Economics at Carleton University, Ottawa, Canada, is the author of several books, including *Education and the State* and *Adam Smith: The Man and His Works*.

"bombshell" fell recently, he seems to have been warming up to it for some time. In February 1976, he wrote: "The welfare state is a protection against failure and exploitation, but a national recovery can take place only if innovators, and men of enterprise and hard work, can prosper." In January 1977, Philip compared Britain's economic troubles to the spread of dry rot in a building. Britain, he observed, had "virtually left the league of the big powers" and was heading for the status of a Third-World nation.

### 2000 A.D. in Britain

But it was on October 27, 1977 that the royal feelings were ventilated with a new and astonishing gusto. The Prince appeared in an interview broadcast over Radio Clyde's small regional station. He was taking part in a series of six programs in which prominent people have been invited to give their views of what Britain may be like in the year 2000. This, it seems, was his main chance.

Consider first one of his major conclusions:

It looks at the moment as if we can expect to see an increasing bureaucracy, bureaucratic involvement in virtually every aspect of the lives of individual citizens. If the experience of other countries is anything to go by, this will mean a gradual reduction in the freedom of choice and individual responsibility in

such things as housing, the education of children, health care, the ability to acquire or inherit personal property, to hand on commercial enterprises, and the ability to provide for old age through personal savings and, perhaps most important of all, the freedom of the individual to exploit his skills or talents as suits him best.<sup>1</sup>

Similar gloomy predictions have been made in many quarters in Britain for some time. The forecast of growing bureaucracy has long been heralded as only one symptom of a general complaint that has come to be known as "the British disease." This disease is an amalgam of excessive taxation, low productivity, a low growth rate, strong disincentive effects of a welfare state that encourages people to increase their leisure at the expense of employment, and the increase of debt, especially foreign debt. But in recent weeks there has been such improvement in the economic news of the *external* financial position of Britain, that considerable euphoria has broken out in government and near-government circles. It is true that sterling has now been converted to a hard currency. The British balance of payments, moreover, has made a dramatic recovery. Inflation rates too have been brought down from extraordinary heights, and now the

<sup>1</sup>This and other quotations from the Prince's speech are taken from *The Globe and Mail*, Toronto, October 29, 1977.

hope is to reduce them to below 10 percent per annum by early 1978. Finally, there has been remarkable success in obtaining oil from Britain's North Sea.

Others are less jubilant. Inflation is still at a high rate, they point out; and so is unemployment. Judging from past experience, moreover, governments that preside over growing national incomes will be as tempted as ever to pre-empt the proceeds of growth in further extensions of subsidies to unremunerative (but politically "sensitive") industries, to the extension of the welfare state, to further nationalization, and to a new expansion of bureaucracy. North Sea oil, meanwhile, will not last forever (not much beyond the turn of the century). If there is a breathing space provided right now by such a "bonanza," the opportunity should be taken seriously to diagnose Britain's *internal* structural problems once and for all. For these do clearly persist despite the latest short term evidence of *external* improvement.

### **Excessive Self-Interest?**

It seems to be in the company of these observers, and in this context, that the Prince has openly placed himself.

What factors would we take into account before trying to look into the future? One of the most important is ordinary human nature, and if we are going

to consider the future in these islands, we should look at this nature as it appears in the British character.

Self-interest is certainly the most powerful characteristic in most people, and it applies not only in the strictly economic sense. Politicians, bureaucrats, social snobs and even churchmen have a primary interest in the field that occupies their attention. Like all facts of life, ambitions and self-interest are neither good nor bad in themselves; they only become good or bad in the way individuals give them expression.

The unscrupulous pursuit of ambition and self-interest, whether by individuals or groups for whatever purpose without any restraint has always ended in disaster.

Prince Philip's argument, however, does not lead to the stale exhortations of the Utopian romantic who expresses the woolly sentiment that if only we would all "live for the community and not for ourselves" all would be well. Rather the argument (on our interpretation) develops into a more sophisticated and balanced one. Prince Philip's position indeed comes near to the broad philosophy of Adam Smith. Self-interest should not be snuffed out. It needs, instead, to be harnessed to wholesome ends. This can be done in a framework of appropriate institutions where there are clear rules, predictable consequences from violating them, and the absence of arbitrary power. The law, in other words, could be a stronger pillar in

the system. But, shrewdly, the Prince cautions that the law is "only as good as legislators make it, as sensible as the judges interpret it, and as effective as its enforcement."

### **A Stronger Moral Code**

While self-interest should be allowed much more scope, the necessary restraints on it can be provided ultimately by individuals themselves in a world of abundant voluntary moral restraint. "The only completely certain restraint is self-control based on the voluntary acceptance of certain moral and ethical standards and principles. And this has been a country in which individuals have been inspired by or, to put it another way, had their behaviour modified by the Christian ethic."

More precisely, Philip's argument is that moral values and wise institutions complement each other: *both* are necessary conditions for civilization. If we do not watch the development of our institutions they might eventually contradict rather than support our ethical and spiritual values.

To take a very crude example, it was the combination of the doctrines of Hitler's National Socialist German Workers' Party—more commonly known as Nazis—with a latent popular prejudice against Jews, which produced the concentration camps and gas chambers. This ghastly inhumanity was certainly

not in keeping with the normal behaviour of the German people and quite beyond the range of expectation.

Any final estimate of life in 2000 A.D. depends therefore, on a guess as to which way "the battle of the minds" is going to go.

### **Prince Philip and Political Theory**

The Prince posed the choice between a political philosophy which sees all power vested in the state which then concedes privileges to individuals; and the alternative position that the individual counts first and that inherent human rights exist. In the latter view the state exists to preserve and protect the individual's human rights to liberty and integrity.

But if we accept that the individual is of paramount importance, we must also accept that individuals, whatever their job or occupation, must have a common moral code to guide their attitudes and actions. Without this essential qualification society would be reduced to anarchy.

This is not a new choice. Every generation in every community has to make this decision at some time or another. On the face of it the obvious choice would be the philosophy of the individual. Unfortunately, such a system depends upon individual restraint and good sense, and it is really too much to expect that everybody would behave like an angel all the time.

It is this human weakness which is always seized upon by the zealous reformers and those who always know bet-

ter to justify their ambition to order the lives of their fellow citizens. The fact is that whichever choice is adopted or imposed, it is always easy to find fault with it, but provided that there is open competition to find faults and offer remedies, all is reasonably well.

The Prince insists on the necessity for longer term views to replace short term expedients. The latter road leads so easily to irreversible despotism. We expected too much from government. It is impossible that perfect efficiency can be imposed by it, and even if it could the tradeoff is not worth it.

The pursuit of absolute efficiency in a free society can lead to unexpected consequences. Corrections of real or imagined faults lead to controls. Then, as the controls mount up, the costs and the bureaucracy, which is required to operate the controls, begin to escalate and the emphasis is no longer on the welfare of the individual but on the economic viability of the state.

Gradually—and always with the very best intentions and almost unnoticed by the people—the power of decision passes from the individual to a ruling group and the more power a ruling group gathers to itself the more it seeks to protect its position against individual opposition and criticism.

Once the law ceases to protect the rights of the individual from the gang—any gang—freedom is lost. There is a great and growing number of countries which have got into this situation and there is ample evidence of the restrictive way of life which has developed within

them even to the extent of forcibly preventing their citizens from leaving their country, if they should try to do so.

### **Freedom Indivisible**

A major problem is that each individual sees things from only his point of view and does not appreciate enough the fact that freedom is indivisible.

The media will fight if the freedom of the press is threatened; the law will fight for its independence; the businessman will fight for his right to exercise his initiative; the worker will struggle for his right to join or not join a union; and so on; but few of them recognise that an attack on the liberty of any one of them is an attack on the liberty of all of them.

Once a determined government begins the process of eroding human rights and liberties—always with the very best possible intentions—it is very difficult for individuals or for individual groups to stand against it.

The royal speech questioned the simple-minded attachment to unsophisticated and popular notions of democracy. Here it contained strong echoes of Alexis de Tocqueville and John Stuart Mill in their apprehension of what the former called “the tyranny of the majority.” The implication of the Prince’s observations, is that the tastes of the “biggest gang” in the end will dominate all others and society will become uniform and homogenized.

We have developed a theory of democracy which holds that the will of the



majority shall always prevail. This is very different from the concept of democracy as a system for arriving at a consensus where finally there is a compromise between conflicting points of view and where simple head counting is only used for special purposes.

Quite important consequences flow from the new theory of democracy. For instance, in an industrial society, the proportion of people living in cities and working in the major industries is much greater than those living in small towns and villages and working in small companies or on the land.

Furthermore, the proportion of unskilled workers in industry is much greater than the total of skilled, managerial, self-employed and professional people combined.

At this point the Prince's insight seems to lead him intriguingly to a recognition of some of the findings of the new American study called the "economics of bureaucracy." That study predicts the further growth of bureaucracy for several special reasons—including the increasingly strategic position that the bureaucrat holds in providing advice to governments, advice that always, and apparently inevitably, leads to an expansion of the bureau's budget and sphere of influence. But once under way the expansion can be cumulative, and for a special reason.

If we regard bureaucracy as comprising all people who in some capacity or another work for the government—including teachers,

postal workers, policemen, and the like, the significant fact is that all these people have votes and an above-average propensity to exercise them at the ballot box. Naturally they will all be well disposed to a government that grants their separate departments handsome budget expansion. Politicians serving the political market will accordingly be tempted to pass legislation conducive to the growth of public funds destined to boost the demand for public personnel still further. Once this group has reached a critical size in political importance a "tipping point" or a point of no return is reached. In the words of Prince Philip: "There is a new factor which will become increasingly significant: the people employed directly and indirectly by local and central government may soon outnumber all other groups put together."

### **The Destruction of the Market**

After such a "tipping point" has been passed, legislation will occur with new vigor and will cover all corners of life. Among the earliest victims of this feverish process will be the free market. In Prince Philip's terms:

Black markets may well begin to flourish, while the major financial and commercial markets will decline. Consumer products will tend toward an average standard with a gradual elimina-

tion of items of better quality . . . the take-home element of wages and salaries will become relatively less important as all the major necessities will be provided free—in other words out of taxation, and also because fringe benefits associated with employment and trade unions will increase. This dependence on fringe benefits for even the basic elements of existence will ensure a very high degree of job discipline as the loss of a job would not be cushioned by the accumulation of savings or property, while employment direction may well make unemployment benefits more difficult to obtain and incidentally, it is worth bearing in mind that slavery is no more than a system of directed labour and fringe benefits.

The end of Prince Philip's speech contained an embryonic theory of nationalism, a theory that views nationalism as a kind of calculated despotism over the minds of citizens. Such mind-control (and Prince Philip quotes freely from George Orwell) enables governments to conduct subtle propaganda to prevent their peoples from migrating to other, more desirable countries.

Whereas individuals in particular occupations recognise an affinity with individuals in similar occupations in other countries, the existence of an exclusive nation is the vested interest of national governments. Experience shows that the more powerful governments become, the more they tend to encourage a spirit of exclusive nationalism and a hatred and suspicion of anything foreign or multinational.

The Prince predicted that official nationalism "will lead to increasing state responsibility in cultural, sporting and economic activities and the gradual suppression of anything which does not suit the government economic policies or which does not appear to do justice to the national cultural ideal." Was the organization of the Olympic games close to his thoughts at this point?

### Can British Traditions Survive?

All the above predictions, the Prince conceded, might seem almost fanciful in the British context. Was it not unthinkable in Britain with its tradition of freedom and tolerance that such things could happen?

I can only say that there were people to be found in many other countries who felt the same way, but the unthinkable happened to them. And if you feel now I ought to suffer the same fate as Jeremiah, let me finish with a chilling sentence from the BBC's interview of the Russian dissident Solzhenitsyn: "It is not how the Soviet Union will find a way out of totalitarianism, but how the West will be able to avoid the same fate."

In the history of mankind liberty has been experienced for only short and sporadic periods. And today it is enjoyed in only a few areas in the world. Freedom, indeed, seems to be a situation of unstable equilibrium. It is an unusual circumstance that calls for unusual men. Prince Philip could well be one such man. ☉

# THE REVOLUTIONARY ASCETIC

BRUCE MAZLISH, in his *The Revolutionary Ascetic: Evolution of a Political Type* (McGraw-Hill, 1221 Avenue of the Americas, New York, N.Y. 10036, paperback, \$4.95), has made a fascinating book out of a most tenuous theory. He begins by invoking the support of Freud and Max Weber, neither of whom was particularly preoccupied with the subject of political upheavals. Freud was concerned with "libidinal ties," and noted that the strong man of the original "primal horde" was usually ego-ridden and able to put aside love for individual or family to serve a group which he identified with himself. Max Weber, using a different terminology, discovered a connection between Puritanism and capitalism—the strong man, able to forgo self-indulgence, was in a better position than his lazy and roistering—or even merely family-

loving—fellows to build a business career.

In short, asceticism can obviously contribute to success of any sort. So Mr. Mazlish has a look at successful revolutionary leaders to see where they conformed to the psychology of the potent tribal chief or the great entrepreneur.

Cromwell, Robespierre, Lenin and Mao Tse-tung are the revolutionists who sit for the Mazlish portraits. But whether it was asceticism as such, or simple fanaticism in pursuit of an abstraction identified with an ideal, that drove this "big four" to accept blood and terror as the price of change is still an open question as one puts down the Mazlish book.

## Cromwell

The Protestant ethic was undeniably a work ethic, and the more one works the less time one has for

"libidinal ties." But this is only to say that a day has twenty-four hours. Actually, how basically ascetic in nature was Oliver Cromwell? Mr. Mazlish notes that Cromwell, who was spoiled a bit by his mother, had a fear of death, since he was an only surviving son. His temperament was splenetic. Up to the age of twenty-eight, when he had some sort of conversion, he was addicted to horseplay and practical jokes that were not in the best of taste, and he "lived up" to the dissipating nature of a wastrel uncle. However, his teacher, a Puritan divine named Thomas Beard, who lectured against the dissoluteness of the age, eventually prevailed with him.

Cromwell got control of his temper and began to exercise a leadership of men that came natural to him. No doubt this involved asceticism of a sort. But Mr. Mazlish has to admit that Cromwell, throughout his life, liked his ale and wine, and continued to indulge the sporting tastes of the country gentry from which he came. He fathered nine children, continued to provide a home for his mother, and was prostrated for two weeks after the death of a daughter. None of this suggests that he ever cut himself off from the "libidinal ties" of a normal life. If he insisted on discipline in his Model Army, the justification was as much pragmatic as it was Puritan.

Mazlish, in the end, has to qualify

his report on Cromwell by saying that he put his "asceticism, insofar as it existed," at the service of an ideal. The qualifying phrase is surely quantitatively inexact.

### **Robespierre**

With Robespierre, the "voice of virtue" of the French Revolution, Mr. Mazlish has an easier time. Robespierre was ascetic to the point of viciousness. He glorified the People but cared nothing for individuals. But others besides Robespierre made the French Revolution, and asceticism figured very little in the lives of some of the revolutionists. Danton, for example, horrified Robespierre when he defined virtue as what he did with his wife in bed at night.

Mr. Mazlish has to bring in Jeremy Bentham, with his theory of utilitarianism, to explain the Russians who studied the French Revolution to see where it went wrong. Robespierre failed because he never managed to build a party, not because of anything that had to do with the question of asceticism. Chernyshevsky, a forerunner of Lenin, wanted a "pitiless" New Man to take charge in Russian revolutionary politics for utilitarian, or instrumental, reasons, but he did not live up to his own ascetic ideal. As Mazlish says, he was an eclectic thinker who, at one time, said the "idea of a wife" afforded some pro-

tection against "revolutionary conviction." In his own life Cherynshevsky wanted both the "protection" and the "conviction."

### Lenin

Lenin may have been "low-keyed sexually," but his asceticism was never an ideal in itself. Lenin married, presumably for companionship. He always believed in the family. He had his softer feelings, and could have listened to Beethoven every day. For ten years he carried on an unconsummated affair with the beautiful Inessa Armand, and he broke down when Inessa died. But he never let his love for Inessa interfere with his revolutionary duty.

Lenin loved the revolution more than he loved anything else, but does that make him an "ascetic"? He didn't suppress his "libidinous ties," he merely subordinated them to the overmastering passion of his life, which was to bring Communism to Russia.

### Mao Tse-tung

Mao Tse-tung, like Lenin, married a revolutionary. According to Andre Malraux, he loved his wife and referred to her in a poem as "my proud poplar," which was a play on her name of Yang K'ai-hui. She was executed in 1930 by the Kuomintang. Mao later remarried twice. None of this reflects a "displaced libido" during the time when Mao was not leading the Long March or

hiding in the caves of Yen-an while Chiang Kai-shek took the brunt of a Japanese attack that continued for years.

The truth would seem to be that revolutionaries are very much like other men save in the choice of the causes they embrace. Some, like Robespierre, are basically ascetic. Others, like Lenin, are Benthamite utilitarians who suppress their nonascetic characteristics because they have more compelling demands on their time. As for Mao Tse-tung, who knows? Maybe the loss of his first wife to a Kuomintang executioner had more to do than Marx with his revolutionary sticking power. In such a case, Mao would be one leader of a revolution who gained strength from the memory of a lost "libidinal tie."

Mr. Mazlish's book suggests more important themes. A Chinese proverb has it that a great man is a public calamity. Certainly this is true when a great man resorts to force and fraud as the prime movers of social change. Why do good men fall for delusions, giving first rate loyalties to methods that bring endless woe to human beings who have a right to resent the confusion of politics with religion? The question of displaced loyalty is more important than displaced libido.



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**ESSAYS ON INDIVIDUALITY**

edited by Felix Morley

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*Reviewed by Allan C. Brownfeld*

TWELVE distinguished writers and educators met in Princeton, New Jersey at a "Symposium on Individuality and Personality" sponsored by the Foundation for American Studies. The meeting took place in 1956.

These were men whose specialties ranged over the humanities, the physical and social sciences, history, politics and economics. Two among them—Friedrich A. Hayek and Milton Friedman—have since received Nobel laureates in economics.

The essays, initially prepared for that 1956 meeting, have now been reprinted by The Liberty Fund in a volume which is worthy of the serious consideration of all those who are concerned with a free society—how it can be constructed and how it can be maintained.

Arthur Kemp, in his foreword, reflects on "the fortunate, perhaps fortuitous, selection of a group of men who had both the courage and the intellectual capacity to transcend the limits of their respective specialties in order to consider the prob-

lems of society as a whole, particularly those relating to individual privacy, individual responsibility and individual freedom of thought and action."

Among the contributors are Roger J. Williams, Joseph Wood Krutch, John Dos Passos, Helmut Schoeck, Richard M. Weaver, and James C. Malin.

In a discussion of the political philosophy of America's founding fathers, John Dos Passos notes that, "If men could be found to apply to political problems the sort of first-rate rigorous thinking which we have seen applied to physics in our lifetime, and if the study of the science of state building should thus come into its own again, the great formulations of the generation of 1776 would still be found valid. . . . It is one of the magnificent ironies of history that the zealots for total bureaucratic rule, whose dogma provides them with boots and spurs to ride the mass of mankind, justify themselves by the same political phraseology which the men of Jefferson's day hoped would make forever impossible the regimentation of the many by the few."

Few societies have attained liberty. Dos Passos writes that, "It is always well to remember that the commonest practice of mankind is that a few shall impose authority and the majority shall submit. . . . The liberties we enjoy today . . . are

the survivors of the many liberties won by the struggles and pains of generations of English-speaking people who somehow had resistance to authority in their blood. Their passion for individuality instead of conformity was unique in the world."

The clear connection between free enterprise and other freedoms is discussed by a number of the contributors. Milton Friedman declares that, "A necessary condition for individual freedom is the organization of the bulk of economic activity through private enterprises operating in a free market . . . there are only two ways of coordinating the economic activities of millions. One is central direction involving use of coercion—the technique of the modern totalitarian state. The other is voluntary cooperation of individuals—the technique of the market place."

In an age in which many have advocated the idea of egalitarianism, Dr. Friedman makes clear that, "It is a trite, if unpalatable, observation that freedom and egalitarianism can be inconsistent objectives. Fortunately, in practice, they have proved not to be. Historically, a free market has produced less inequality, a wider distribution of wealth, and less poverty than any other form of economic organization. There is less inequality in advanced capitalist

countries like the U.S. than in underdeveloped countries, like India. . . . There appears also to be less inequality in capitalist countries than in collectivist countries like Russia and China. In principle, collectivist societies could achieve substantial equality—albeit at the sacrifice of total output; in practice, they have not done so or even tried to do so."


In another essay, Richard Weaver expressed the fear that individualism is seriously on the decline. In fact, he believed that the very idea of holding a symposium on the subject was indicative of that fact: "There is an uncomfortable basis of truth in a remark I once heard made by a philosopher: as soon as something begins to disappear, we put up signs proclaiming the virtue of it. The very fact of a symposium arranged to discuss the future of individuality may be taken wryly as a sign that its prospects are poor. But sometimes men disvalue a thing only because they have forgotten how good it is comparatively. In such cases a fresh look should lead to a revival of faith and also uncover possibilities for preserving what we would be the poorer for losing."

One of the major efforts to destroy the individualism upon which freedom is based, Weaver believed, is the modern world's attack upon memory: "There has never been another milieu, as far as my knowl-

edge goes, which has sought to make forgetting a virtue. 'Forget it' is a password of the time. If people make a mistake or commit a sin (to use an antiquated phrase), they are told to 'Forget it.' . . . Those who live with a burden of memory are smiled at amiably, when they are not frowned upon darkly, as impediments in the way of progress. . . . I cannot see this disparagement of all memory as anything but an attack upon the mind. . . . The human being must live in a present that is enriched and sustained by a past; it is his experience stored up in the form of memory which enables him to be something more than an automaton responding to sensory impingements."

Felix Morley, addressing those whose political philosophy stems from Rousseau and his advocacy of the "general will," points out that, "The protection of minorities

*against* the majority was the inspiring and historically unique objective of the Founding Fathers. And if anyone at that time had suggested the desirability of a unified general will, to be defined and exercised throughout the states from the seat of central government, he would have been denounced more roundly even than was poor bumbling George III."

If 1956 was not a good year for freedom and individualism, the period we are now in is even worse. In the world at large, freedom has diminished, as it has within our own country. The challenges we face are pointed up all too well in this selection of essays. The Liberty Fund has performed a significant public service in reprinting them and making them available to a new generation of Americans. 

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VOL. 28, NO. 3 • MARCH 1978

- The Consumer's Role** **Cyd Essock** 131  
Responsible choice by consumers is the key to the survival of the free market economy in the United States.
- The Market for Labor** **Dennis Bechara** 137  
Concerning syndicalism, profit sharing, codetermination and other coercive measures to give managerial power to laborers.
- Jeremiah's Job** **Gary North** 144  
To understand reality and present it in the most effective way is the prophet's job.
- To Be Forewarned . . .** **E. W. Kemmerer**  
**John T. Flynn** 148  
What modern-day prophets were trying to tell us.
- World in the Grip of an Idea**  
**15. Sweden: The Matrix**  
**of Tradition and Gradualism** **Clarence B. Carson** 150  
The twilight zone of gradualism or evolutionary socialism, as exemplified by Sweden.
- Ten Rules for Understanding**  
**Economic Development** **Robert Higgs** 163  
A critical appraisal of the collective view; a suggestion that growth is personal.
- The Problem with Power** **Ridgway K. Foley, Jr.** 169  
The urge to force improvement of others often precludes their voluntary cooperation.
- Political Medicine Breeds Social Conflict** **Hans F. Sennholz** 175  
A society that transfers property by political force is a society at war.
- Making Sense Out of the World** **Ralph Bradford** 179  
Dropping out of life "to find oneself" may be harmful to the health.
- Awake or Asleep?** **Earl W. McMunn** 184  
Political meddling results in erratic economic performance.
- Book Reviews:** 188  
"Enemies of Society" by Paul Johnson  
"This Nation Shall Endure" by Ezra Taft Benson

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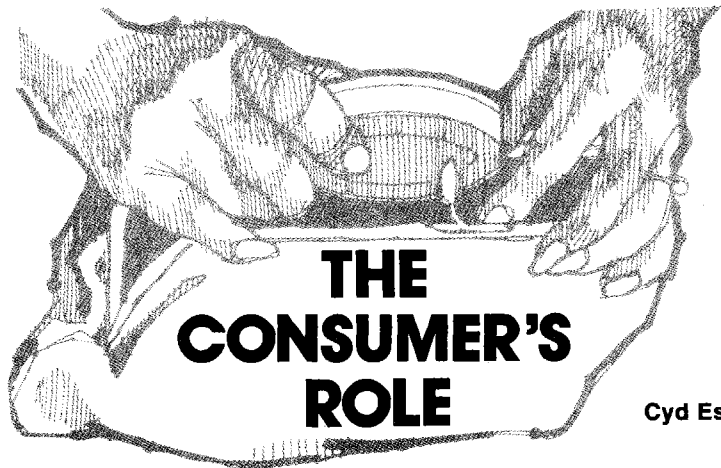
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# THE CONSUMER'S ROLE

Cyd Essock

It takes little effort to be a consumer. The simple act of buying a good or service is the only requirement for entering the club of consumerism, for in the free market economy the consumer is a special person. Unlike other economic systems, the free market economy, in particular the free market economy of the United States, caters to the consumer, appealing to his wants and attempting to satisfy his desires.

Each individual consumer, consciously or unconsciously, determines the fate of the goods and services on the market each time he chooses one product instead of another. Each penny that is spent on any one product is the equivalent of

an economic vote in favor of that particular product and against its competitors.

Therefore, a single consumer and his choices are important, for each consumer's economic vote, when added to the votes of other consumers, determines which consumer goods will remain on the market. Obviously, the entrepreneur will not want to manufacture product A if the consumer does not like product A and prefers to purchase product B.

With the possible exception of the very rich, the individual consumer has limited monetary resources and must budget his expenditures. How he determines his marginal utility will determine how much he will spend, how much he will save or invest, and on what he will make his expenditures.

However, the free market economy depends upon more than just

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the consumer being able to buy a rib roast or a refrigerator when he so chooses. For the consumer lives in an intangible world of thoughts, ideas, ethics, and morals; and his attitudes toward these cultural aspects of life influence and determine his philosophies and actions. He is just as obligated to consume wisely in this intangible world as he is in the material world in which he physically lives.

Thus the reins of the free market economy lie in the hands of the consumer. And the consumer, because he is in the driver's seat, has an obligation to consume wisely. Unfortunately, too many consumers are either unaware of this obligation, or do not take it seriously, if indeed they even accept the fact that they are obligated to anyone or anything.

### **Man's Greatest Asset**

The human mind is man's greatest asset. Without the ability to think and reason, the individual is of no use to himself or to others; for the thinking man is an active man, active in using his mind to make choices that affect not only himself but the society around him. However, unlike the instincts that birds and animals are born with, man's knowledge and understanding must be acquired through his own endeavors, for he enters this world naked mentally as well as

physically. The man who covets knowledge and understanding will find much to learn.

It is *Proverbs* that tells us: Wisdom is before him that hath understanding. . . . Get wisdom, get understanding.

By applying this thought to economics, one can see that an understanding of the free market environment in which the consumer finds himself helps him to develop the wisdom necessary to consume wisely.

King Solomon was known throughout the world for his wisdom—his common sense solutions to problems. This is not to say that all problems can be solved by using just common sense, for they cannot; but the consumer can make sensible decisions by wisely considering his possible choices.

The choices the consumer makes in the intangible world of thoughts and actions are primarily influenced by what he hears and sees.

That the forms of communication in a country are immediately taken over when a communistic or socialistic regime comes into power is evidence of the importance of communication systems. If the means of introducing ideas to the masses can be controlled, what they think and thus what they are can be controlled. By controlling the mind, one can control the body.

Thus, freedom of the press and

media—newspapers, magazines, books, advertising, television, radio—is a vital necessity if this country is to maintain a capitalistic, free market economy. The field of communication is the link between the consumer, the entrepreneur, and the government.

### Promoting Intervention

One of the dangers threatening the free market economy in the United States today is the tendency of the press and media to advocate philosophies that favor government intervention.

Since neither the eargate nor the eyegate is ever satisfied, the sound and visual media have an unlimited market for whatever they choose to present to the consumer; for the consumer is always willing to hear and see more. "Let the consumer beware" can well be applied to this situation because only the consumer himself, through wisdom and understanding, is able to accept or reject the thoughts, ideas, ethics, and morals of others which are continually being fed to him. Only the consumer himself is able to make the choice of what is wise and what is unwise. He will ultimately choose to control his own mind or will choose to let it be controlled for him by others.

Unfortunately, the consumer has not wisely considered his choices in the material world, and the foolish

choices of his past are now darkening his hope for a bright future. What has cast this shadow?

The consumer, freed from the mental and physical controls placed on him during the depression of the 30's and the war of the 40's—his pocket amply filled with money—breathed a sigh of relief and moved out of his house of bricks into a house of straw. In his eagerness to spend, he no longer chose to act as a knowledgeable, well-informed, reasoning consumer and this led him into compulsive buying and unsound choices.

As a result, the consumer, instead of accepting responsibility for his lackadaisical choices, blamed everyone but himself. Instead of correcting a deteriorating situation by starting to consume wisely, he continued buying and complaining and did not change his habits.

Washington, which had stepped into the void created when the demand-supply free market economy had been upset during these two decades, took note of the situation, took the entrepreneur to the woodshed, and took the consumer under its bureaucratic wing, trying to cure the consumer's very real ills with the wrong medicine—intervention in the market place.

Thus, the free market economy found itself being pushed down the road which leads to socialism, for government intervention eventually

leads to the elimination of the market's reason for being: the making of a profit, an effective tool by which business determines how best to serve the consumer.

While there is little doubt that some entrepreneurs will willingly "fleece" the consumer in a free market economy, the problem is not to be solved by the government. Once the government gets its bureaucratic foot in the door, the choice the consumer may want to make may not be the choice he is allowed to make.

### **Consumer Responsibility**

The trouble with controls in a free market economy is that the government tends to consider the consumer right and the entrepreneur wrong. It puts most of the responsibilities for the success of the free market economy on the shoulders of the entrepreneur and little on the shoulders of the consumer. But the free market economy is very clear in telling the consumer that he is in control and that he has the obligation to consume wisely. However, socialism is telling the consumer to sit back and relax, that government will take over his obligations and save him the trouble of consuming wisely.

For the intellectual consumer who values his freedom to choose and reason, the inroads socialism has made into the free market economy

of the United States under the guise of government's helping hand, should be a cause for alarm. Our capitalist economy has regressed to the point where government seemingly wants to allow only enough freedoms to give the illusion of consumer leadership and freedom in the market place.

As long as the majority of the consumers can be convinced that they still act as the hub of the wheel of the free market economy, able to influence the entrepreneur to produce what they want, they are satisfied.

The consumer may even mentally reject the idea that he is being controlled through intervention in the market place if enough of his demands are being supplied and the decisions made by the so-called consumer protection agencies do not seriously impede his consumption. Government control is always what happens to the "other guy," never to himself. His eyes are mentally blinded, for he does not want to see.

Our founding fathers came to this country fully aware of the dictatorial nature of government controls. One of the safeguards they established was the division of power in government. They realized that each branch of government would guard its powers jealously and not surrender them to centralized control, necessary in any type of dictatorship. The various branches of

the federal, state, and local governments were designed to fight to keep and preserve their governing rights. A check and balance on each other, the system itself would discourage government control. Those leaders set up our government not by accident but as a well-planned, thoughtful system, based on a constitution which divided government powers in every way possible.

### **Personal Freedom Requires Limited Government**

Government powers in the new nation were severely controlled, for it was felt that the government's power should be limited to national defense and the court system. The only power they felt really necessary in the government was one which would permit strong enough controls to repress any person or persons who endangered the freedoms of the majority who were existing peacefully. Realizing that the government which governs best governs least, the founding fathers incorporated the principles of this idea into the constitution.

Over and over again history has shown that man's freedom is in inverse proportion to government rule, for man is only free when government is contained. The more fragmented the government, the more freedom man gains.

One often hears the view expressed that mankind is basically

good, but in *Romans* we are warned that "there is none righteous no not one" and *Jeremiah* adds that "the heart is deceitful above all things and desperately wicked." In other words, man must be continually aware of the necessity to discipline his thoughts and actions. It is easy for man to be evil; it is hard for man to be good.

This is why man, who finds himself in a position of power, will tend to put himself first and his fellow man last. This is why power, in whatever form, is a potential danger. History has shown us wars, depressions, and hatreds that have pitted man against man, brother against brother, and parent against child, and at the root lies the lust for power.

Therefore, when the consumer starts applying the above truths of good and evil to economics, he can see that for his own personal well-being it is to his advantage to work at being wary so that he is able to consume wisely. Our liberties and our freedoms are to be cherished and can easily be lost because they are literally tied to the apron strings of a free market economy.


### **Two Choices**

There are only two choices: right or wrong—truth or error. Human intellect must separate the two and apply truth to capitalism, because if it does not, error will prevail and the

free market economy will cease to exist. Unless man's mind is free, his body never can be.

For the wages of consumer ignorance is government control, the parent of bureaucracy and socialism; but the wages of consumer wisdom and understanding is

freedom and liberty. The stakes are high.

Only through the human action of intellectual choice can the consumer hope to play his part in the salvation of the free market economy from the very real threat of eventual domination by government. 

### Consumerism

WE can protect the consumer, but do we really want to close the market and forego all improvements in products and services? Do we really want to substitute administrative dictate from Capitol Hill for individual buyer decision?

Regardless of any new agency that might be created to represent the consumer, and regardless of the growth of consumerism, the only true reading of the consumer is to be obtained from her actions in the market place. There can be no true spokesman for the consumer other than the actions of the consumer herself. She can rationalize her actions but, try as she might, she cannot explain them in full. That is why she cannot tell you what new or modified goods and services would better serve her needs.

In marketing research I have spent the better part of my life ringing consumer doorbells in a futile effort to get them to tell me how some product or market service can be improved or what new products or services they want, only to find that in our conversation they failed either to visualize their alternatives or identify the true values to which they in final analysis respond.

The consumer, in her mute but effective way, can only bring all her value considerations to bear in response to what is offered her. She has her own built-in protective device. If you displease her—if you do not offer her the best alternative—if indeed you deceive her in terms of her own values, she simply and quickly votes “no” in the market place. That is the miracle of the free market—the miracle the consumerist refuses to recognize.

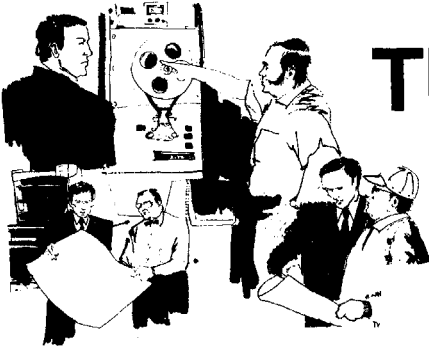
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# The Market for Labor



THROUGHOUT HISTORY there have been numerous schools of thought dealing with the determination of wages and the proper role of workers. Most of these economic philosophies have opposed the free market method of production and employment and have sought, by various means, to alter our allegedly unjust system. Therefore, in order to understand these proposed means and their inherent fallacies, it is necessary to analyze how wages are determined in the free market.

The concept of marginal productivity describes the economic forces at work in the labor market. When an entrepreneur needs employees,

he must offer them enough incentive to entice them away from other possible employers. However, the salary that an employer may offer prospective employees is limited by the realities of the market. Consequently, the employer must weigh how much income he will receive from the production that each new employee will generate. If the employer pays a wage that is above the laborer's marginal productivity, then he will incur losses, which will force him to lower the wages. If, on the other hand, he pays too low a wage, lower than the marginal productivity, then the prospect of gain will entice other entrepreneurs to take advantage of the difference between the marginal productivity and the wages prevailing in the market.

Interventionists, those people who

---

Mr. Bechara recently earned a master's degree in Labor Law at the University of Pennsylvania. He is an attorney and a member of the bars of the Commonwealth of Puerto Rico and the District of Columbia.

argue in favor of numerous laws which create minimum conditions for employment, are inconsistent concerning wage determination. They argue that employers are miserly and refuse to give employees a fair wage. The interventionists are thus assuming that employers would not compete against one another for workers, because that would tend to bid wages up toward the point of marginal productivity. But if employers are so guided by avarice, why would they not seize the opportunity for profit when they observe a wide disparity between high marginal productivity and low prevailing wages?

### **Effect of Unemployment**

It is often argued that in the real world we confront an ocean of unemployment and that an entrepreneur does not have to entice employees already employed, so that he is able to offer a salary lower than the marginal productivity. However, to the extent that there is involuntary unemployment, it is a result of the interventionist policies of the government. The consequence of imposing a minimum wage is that those people who cannot produce economic goods worth more than that minimum will not be hired. Furthermore, the imposition of inflexible laws that restrict the labor market create unnecessary and tragic human consequences. The argument

that we must combat the result of one government intervention with more government intervention is simply a non sequitur.

Even assuming that the interventionists are correct about the effect of unemployment on wages, the theory of marginal productivity remains unassailable. Inasmuch as those who are unemployed are in such a position as a result of the interventionist policies, they cannot effectively compete on the labor market with the rest of the employees in the market. Hence, marginal productivity still applies to the employed.

If we assume, however, that the unemployed population does compete with the rest of the labor force, the net effect would be to bring about a readjustment in wages, taking the unemployed into consideration. Those who argue that the unemployed can compete with those employed are, in effect, admitting that prevailing wage rates are too high, above the equilibrium level. Otherwise, no involuntary long-term unemployment could result. Therefore, regardless of which point of view we adopt concerning unemployment, the marginal productivity theory cannot be denied.

### **Syndicalism**

Contemporary interventionist philosophy frequently advances the idea of worker ownership-in-

common of the means of production. The origin of this notion can be found in syndicalism, an historical reaction to the market system. Syndicalism argued for the expropriation of the means of production from rightful owners, and the substitution of the workers themselves as the owners. This method of economic organization would allegedly bring about income equality.

The syndicalist society, however, denied the existence of change. As some workers sell their shares in production, or simply squander them, income inequalities again result, which was the evil that syndicalism was supposed to remedy. When workers die and leave an inheritance, we have the same problem: heirs own shares of enterprises in which they do not necessarily work. Therefore, we find that this system not only created income inequalities, but also allowed people to own shares of entities in which they did not work, both evils in the eyes of the syndicalists. In order to enforce the syndicalist method of production, a great bureaucracy with ever-widening powers needed to be created to redistribute wealth continually so as to eliminate these consequences.

Syndicalism faced difficulties with respect to growing and dying industries. Aside from the obvious problem of the raising of capital, the syndicalist state had no way to deal

with the fact that some industries became prosperous, while others were headed toward bankruptcy. The employees of the bankrupt industries would have lost all the assets they earned, while those employed by the growing industries would oppose any new employee from entering their industry since it would imply having to further divide the shares of the enterprise among more people. Consequently, syndicalism induced tremendous rigidities on the labor market.

The syndicalist society failed to perceive the nature of our system, which involves not only production, but exchange. As John Chamberlain put it:

In the early 1920's the Italian syndicalist trade unions seized the factories. But there followed a sitdown strike of the salesmen, the commercial agents, the factors, the middlemen. Syndicalism had no way of entering the world of commerce, the world of *connection*, which must go either by the law of contract or by administrative fiat. When no provision is made for the world of commerce, a vacuum exists outside of the factories. A state is needed to enforce the freely accepted terms of contracts or to staff an administrative apparatus. If there is no state, gangsters step in to do the job . . .<sup>1</sup>

### **Inequalities Persist**

Syndicalism, therefore, brought about the same income inequalities which it attempted to eliminate. At the same time it denied the economy

the benefits of market pricing under capitalist production and exchange.

Although it may be easy to neutralize the appeal of syndicalism, the underlying ideas which engendered it remain with us to this very day. These ideas nourish the belief that employees are not receiving their fair share and that laws should therefore be enacted to alter such inequality. Hence we find a rising popularity for such methods as profit sharing and worker participation in managerial decisions (codetermination) as the ways to create a middle ground between pure syndicalism and pure capitalism.

It is possible that profit sharing and codetermination may have positive consequences in some industries, that productivity may rise and that labor-management relations may be improved. However, it does not necessarily follow that what may be good for one firm may be good for the economy as a whole.

With regard to profit sharing and codetermination, it must be remembered that these topics are considered here strictly from the point of view of what would take place in the event laws were enacted to compel every firm to establish its own method of profit sharing and codetermination.

Profit sharing is not a new idea, and has been tried before:

Albert Gallatin, Secretary of the Treasury under Presidents Jefferson and

Madison, installed profit sharing in his glass works at New Geneva, Pennsylvania in 1794. Horace Greeley had a profit sharing plan for certain employees at the *New York Tribune*, and was a strong advocate. In 1886, Colonel Procter introduced a profit sharing and general employee relations program at Procter and Gamble. Eastman Kodak joined the ranks of the profit sharers in 1912, and Sears, Roebuck and Company in 1916. In 1920 the National Industrial Conference Board surveyed the field and found fifty-four companies with profit sharing plans; in 1940, its survey uncovered 158 plans.<sup>2</sup>

### Profit Must Be Earned

A profit sharing plan may be described as one which is organized so as to make intermittent payments to the employees out of any possible profits. Consequently, the success of the plan is contingent on the success of the enterprise. If there is no profit in a given year, no contributions can be made.

However, the term "profit sharing" is misleading because it implies that profits exist only as the bottom line of an accountant's ledger. Yet, true profits, from a strictly economic point of view, consist of "the reward willing customers accord an entrepreneur who efficiently uses scarce resources to satisfy their wants."<sup>3</sup>

Profits that are shared with employees or taxed away by the state cannot effectively be a part of an

economic process by which consumers reward the most productive and ingenious entrepreneurs. And what of that portion of profit which represents an interest payment to the investor? If investors are at liberty to place their savings elsewhere to obtain an appropriate yield, it is not feasible to consider sharing the interest portion of profits.

One could argue that if a law were passed imposing profit sharing plans on all enterprises, then there would be no threat of investors withdrawing their funds to other firms. However, this argument fails to realize that under such a law there would be no investment unless the investment yields an interest above the yield which would be confiscated by the profit sharers. Therefore, if a universal profit sharing plan existed, its first consequence would be to reduce and limit investment to those areas profitable enough to cover the profit sharing burden as well as the interest which investors would find acceptable. All other investments which would produce less than that sum would be discontinued, because no investor would find it worthwhile to invest his savings at a negative interest.

### **No Panacea**

Profit sharing does not promise an extensive future. For the years 1969 through 1974, corporate profits after taxes averaged about \$55 billion a

year. If that entire amount had been divided equally among an average employed labor force of 81 million, each worker's share would have been about \$13 a week.<sup>4</sup> But in that case, no profits would have been available as interest or a return to investors. Of course, when we speak in terms of figures and aggregates, we deal with imperfect concepts which tend to be misleading. Historically, an average of 45 per cent of the annual reports of companies show a loss for the year.<sup>5</sup>

Hence, it becomes obvious that the ideal of profit sharing, even if universally applied, cannot become a panacea for our industrial problems. The average employee will see his particular work as too far removed from the actual profits earned, so that the motivation to be more productive is very weak.

Problems dealing with equity will also arise every time the profit is divided, each sector of the labor force demanding a larger share than the one actually allocated to it. Similar difficulties will emerge regarding the "fair" division of the profit between shareholders and employees.

Profit sharing is also a deceiving term because its proponents use it to allude to a mechanism for raising wages. After dividing among the employees what the proponents call profit, there will still be some amount left over for investors,

which will be considered as the net profit. The amount divided among the workers, rather than profit, is another wage, a bonus which is part and parcel of the costs of production.

Whatever the problems inherent in the profit sharing idea, some firms still may see it as the better way to pay their workers according to their marginal productivity. This is tolerable in a free market, and there should be no law against it. But neither should the law deny others their liberty by making profit sharing universal and compulsory.

### **Codetermination**

Codetermination has become a reality in many West European countries. Although each country may have its own devices, the general tendency is to allow a certain number of employees on the board of directors, so that both labor and management may have an influence on decisions which may affect the employees.

As in the case of profit sharing, in the free market some firms may look upon the process of codetermination as their better way to compete for employees—and that should be their privilege. However, we are dealing in this essay not with the voluntary actions of employers and employees, but with the possibility that laws be enacted to force this concept on all corporations.

In a sense, codetermination is a

thrust against the concept of private property, a limitation of property rights but short of outright expropriation. Others than the property owner would enter into the decisions about how to risk his investment. Instead of economic efficiency, the guide would become political expedience. And if business activity is thus politicized, where is the process to end?<sup>6</sup>

In the long run, an employer cannot impose his will on his employees because he is limited by the action of the market. If the employer insists on conducting his personnel affairs in an arbitrary manner, he will lose the most efficient of his employees, who will be hired by his competitors. If an employer insists on acting in an authoritarian way, he will find that in the long run the quality of his employees will deteriorate, the products he manufactures will reflect this and his business will generally be affected. Thus does open competition in the market effectively curb the abuses cited by proponents of codetermination.

In addition to those who advocate forced profit sharing and codetermination are others who believe that the only way to raise wages is through union pressure on employers. However, the price mechanism has its effect here as in any other area where commodities are bought and sold. It is possible that unions will be able to obtain wages higher

than the market level, but adverse effects will follow. In the first place, the industry involved may have to raise its prices to pay for the higher production costs. This may reduce demand for that company's products, so that some employees will be discharged. Conversely, if the demand for these products is not as responsive to their price, then the consumers will have that much money less to spend or invest on other products, so that other industries will suffer a decrease in their business. At the same time, the long-run effect of wages higher than the equilibrium level in any industry, as imposed by union pressure, is to trap capital. As a result of this, investors will no longer be willing to reinvest in such industries, and the apparent benefits of union pressure become short-lived.

### Capital the Key

The only true way for raising wages is to allow for capital formation. Marginal productivity determines wages in the market, but that productivity is affected by the amount of capital invested per employee. American workers are more productive not because they are any more intelligent than other workers, but because they have at their disposal more efficient and more pro-

ductive tools. These efficient tools alone cannot guarantee that profits will be made, since profits depend on the behavior of willing customers whose needs have been correctly anticipated. However, once consumer preferences are correctly foreseen, then the more productive the tools the more the marginal productivity of employees rises.

What we may wisely ask of government is that it not interfere with capital formation and that it respect and protect private property and the right of every individual to contract and trade freely with others who are willing. ☉

### —FOOTNOTES—

<sup>1</sup>John Chamberlain, *The Roots of Capitalism* (Indianapolis: Liberty Press, 1976), p. 245. See also Ludwig von Mises, *Human Action* (Chicago: Henry Regnery Co., 3rd ed. 1966), pp. 812-820.

<sup>2</sup>Claude Robinson, *Understanding Profits* (Princeton: D. Van Nostrand Co., 1961), p. 303.

<sup>3</sup>"Profit Sharing," *The Freeman*, December 1973.

<sup>4</sup>*Statistical Abstract of the United States 1976*, U.S. Department of Commerce, Bureau of the Census.

<sup>5</sup>Robinson, *op. cit.*, p. 79.

<sup>6</sup>"Implications of representation trend for U.S. corporations," *Harvard Business Review*, January/February 1977. "The Realities of Co-Determination," *The AFL-CIO American Federationist*, October 1977. "Participation by Agreement," *Lloyds Bank Review*, July 1977.

# Jeremiah's Job

SOONER or later, those who are interested in the philosophy of liberty run across Albert J. Nock's essay, "Isaiah's Job." Taking as an example two Old Testament prophets, Isaiah and Elijah, Nock makes at least two important points. *First*, until society seems to be disintegrating around our ears, not many people are going to listen to a critic who comes in the name of principled action. The masses want to get all the benefits of principled action, but they also want to continue to follow their unprincipled ways. They want the fruits but not the roots of morality. Therefore, they refuse to listen to prophets. *Second*, Nock pointed out, the prophet Elijah was convinced that he was the last of the faithful, or what Nock calls the Remnant. Not so, God told the prophet; He had kept seven thousand others from the rot of the day.

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Elijah had no idea that there were this many faithful people left. He had not seen any of them. He had heard no reports of them. Yet here was God, telling him that they were out there. Thus, Nock concludes, it does no good to count heads. The people whose heads are available for counting are not the ones you ought to be interested in. Whether or not people listen is irrelevant; the important thing is that the prophet makes the message clear and consistent. He is not to water down the truth for the sake of mass appeal.

Nock's essay helps those of us who are used to the idea that we should measure our success by the number of people we convince. We are "scalphunters," when we ought to be prophets. The prophets were not supposed to give the message out in order to win lots of public support. On the contrary, they were supposed to give the message for the sake of truth. They were to witness to a



generation which would not respond to the message. The truth was therefore its own justification. Those who were supposed to hear, namely, the Remnant, would get the message, one way or the other. They were the people who counted. Lesson: the people who count can't be counted. Not by prophets, anyway.

### **A Sad Message**

The main trouble I have with Nock's essay is that he excluded another very important prophet. That prophet was Jeremiah. He was a contemporary of Isaiah, and God gave him virtually the same message. He was told to go to the highest leaders in the land, to the average man in the street, and to everyone in between, and proclaim the message. He was to tell them that they were in violation of basic moral law in everything they did, and that if they did not turn away from their false beliefs and wicked practices, they would see their society totally devastated. In this respect, Jeremiah's task was not fundamentally different from Isaiah's.

Nevertheless, there were some differences. Jeremiah also wrote (or dictated) a book. He was not content to preach an unpleasant message to skeptical and hostile people. He wanted to record the results of their unwillingness to listen. His thoughts are preserved in the saddest book in the Bible, the Book of

Lamentations. Though he knew in advance that the masses would reject his message, he also knew that there would be great suffering in Israel because of their stiffnecked response. Furthermore, the Remnant would pay the same price in the short run. They, too, would be carried off into captivity. They, too, would lose their possessions and die in a foreign land. They would not be protected from disaster just because they happened to be decent people who were not immersed in the practices of their day. He wrote these words in response to the coming of the predicted judgment: "Mine eye runneth down with rivers of water for the destruction of the daughter of my people" (Lam. 3:48). He knew that their punishment was well deserved, yet he was also a part of them. The destruction was so great that not a glimmer of hope appears in the whole book.

What are we to conclude? That everything is hopeless? That no one will listen, ever, to the truth? That every society will eventually be ripe for judgment, and that this collapse will allow no one to escape? Is it useless, historically speaking, to serve in the Remnant? Are we forever to be ground down in the millstones of history?

One key incident in Jeremiah's life gives us the answer. It appears in the thirty-second chapter of Jeremiah, a much-neglected pas-

sage. The Babylonians (Chaldeans) have besieged Jerusalem. There was little doubt in anyone's mind that the city would fall to the invaders. God told Jeremiah that in the midst of this crisis, his cousin would approach him and make him an offer. He would offer Jeremiah the right, as a relative, to buy a particular field which was in the cousin's side of the family. Sure enough, the cousin arrived with just this offer. The cousin was "playing it smart." He was selling off a field that was about to fall into the hands of the enemy, and in exchange he would be given silver, a highly liquid, easily concealed, transportable form of capital—an international currency. Not bad for him, since all he would be giving up would be a piece of ground that the enemy would probably take over anyway.

### Long-Range Planning

What were God's instructions to Jeremiah? *Buy the field.* So Jeremiah took his silver, and witnesses, and balances (honest money), and they made the transaction. Then Jeremiah instructed Baruch, a scribe, to record the evidence. (It may be that Jeremiah was illiterate, as were most men of his day.) Baruch was told by Jeremiah to put the evidences of the sale into an earthen vessel for long-term storage. "For thus saith the Lord of hosts, the God of Israel; Houses and

fields and vineyards shall be possessed again in this land" (32:15).

God explained His purposes at the end of the chapter. Yes, the city would fall. Yes, the people would go into captivity. Yes, their sins had brought this upon them. But this is not the end of the story. "Behold, I will gather them out of all countries, whither I have driven them in mine anger, and in my fury, and in great wrath; and I will bring them again unto this place, and I will cause them to dwell safely: And they shall be my people, and I will be their God" (32:37-38). It doesn't stop there, either: "Like as I have brought all this great evil upon this people, so will I bring upon them all the good that I have promised them. And fields shall be bought in this land, whereof ye say, It is desolate without man or beast; it is given into the hand of the Chaldeans" (32:42-43).

What was God's message to Jeremiah? *There is hope for the long run for those who are faithful to His message.* There will eventually come a day when truth will out, when law will reign supreme, when men will buy and sell, when contracts will be honored. "Men shall buy fields for money, and subscribe evidences, and seal them, and take witnesses in the land of Benjamin, and in the places about Jerusalem, and in the cities of Judah, and in the cities of the mountains, and in the cities of the valley,

and in the cities of the south: for I will cause their captivity to return, saith the Lord" (32:44). In other words, business will return because the law of God will be understood and honored.

God had told them that they would be in captivity for seventy years. It would be long enough to make certain that Jeremiah would not be coming back to claim his field. Yet there was hope nonetheless. The prophet is not to imagine that all good things will come in his own day. He is not to be a short-term optimist. He is not to conclude that his words will turn everything around, making him the hero of the hour. He is told to look at the long run, to preach in the short run, and to go about his normal business. Plan for the future. Buy and sell. Continue to speak out when times are opportune. Tell anyone who will listen of the coming judgment, but remind them also that all is not lost forever just because everything seems to be lost today.

### **The Job Is to Be Honest**

The prophet's job is to be honest. He must face the laws of reality. If bad principles lead to bad actions, then bad consequences will surely follow. These laws of reality cannot be underestimated. In fact, it is the prophet's task to reaffirm their validity by his message. He pulls no punches. Things are not "fairly bad"

if morality is ignored or laughed at. Things are terrible, and people should understand this. Still, there is hope. Men can change their minds. The prophet knows that in "good" times, rebellious people usually don't change their minds. In fact, that most reluctant of prophets, Jonah, was so startled when the city of Nineveh repented that he pouted that the promised judgment never came, making him look like an idiot—an attitude which God reproached. But in the days of Elijah, Isaiah, and Jeremiah, the pragmatists of Israel were not about to turn back to the moral laws which had provided their prosperity. It would take seven decades of captivity to bring them, or rather their children and grandchildren, back to the truth.

Invest long-term, God told Jeremiah. Invest as if all were not lost. Invest as if your message, eventually, will bear fruit. Invest in the face of despair, when everyone is running scared. Invest for the benefit of your children and grandchildren. Invest as if everything doesn't depend on the prophet, since prophets, being men, are not omniscient or omnipotent. Invest as if moral law will one day be respected. Keep plugging away, even if you yourself will never live to see the people return to their senses and return to their land. Don't minimize the extent of the destruction. Don't

rejoice at the plight of your enemies. Don't despair at the fact that the Remnant is caught in the whirlpool of destruction. Shed tears if you must, but most important, keep records. Plan for the future. Never give an inch.

A prophet is no Pollyanna, no Dr. Pangloss. He faces reality. Reality is his calling in life. To tell people things are terrible when they think everything is fine, and to offer hope when they think everything is lost.


To tell the truth, whatever the cost, and not to let short-term considerations blur one's vision. The Remnant is there. The Remnant will survive. Eventually, the Remnant will become the masses, since truth will out. But until that day, for which all prophets should rejoice, despite the fact that few will see its dawning, the prophet must do his best to understand reality and present it in the most effective way he knows how. That is Jeremiah's job. ☩

## To Be Forewarned . . .

PERSONALLY I can see nothing in sight that is likely to stop our drift in the inflation current. The politicians will not stop the present heavy expenditures because these expenditures have votes and it is with votes they are most concerned. For the same reason they will not provide the revenue for meeting these expenditures through increasing taxation. Under such conditions, the public will not buy government bonds at rates of interest that are politically possible and pay for those bonds out of their savings. If these assumptions are true, and unless we have a powerful recovery which is not likely while the business public are scared over what is happening and is likely to happen in Washington, the only course that is left is a continuation of our present extravagant financing policy under which funds are obtained by forcing government

obligations down the throats of the banks and having the banks pay for them by credit secured by these obligations. That is inflation pure and simple and there can be only one end of such a policy.

—From a letter by Professor Edwin Walter Kemmerer, Princeton University, to Henry T. Bodman, January 28, 1936.

Most of the states are at the end of the road financially. The same thing is true of the cities. Yet when the war is over the demands upon these local government agencies will be beyond their power. How will the states and cities meet the enormous costs of education? The answer is simple. The government is already laying plans to become their banker and financial fortress—the banker of the states and cities and school districts and counties. Governors, county commissioners, mayors, and school-board members will stand in line at the federal treasury for their handouts. They will stand in line not before Congress but before a federal bureaucrat with almost absolute powers in his hands. Will it be necessary to amend the Constitution to give that bureaucratic spendthrift power over the object of his philanthropy? He will have no constitutional power to require either a state or a city or a school district or an industrial corporation or a building company or a local utility to do anything. But he will have the power to give or not to give, to open the treasury door or not to open it to the suppliant governor, mayor, or corporation executive. The pass admitting them to the vaults of the treasury will be a certificate of compliance with the conditions which the bureaucrat makes for the federal gift. 

John T. Flynn,  
*As We Go Marching* (1944)



# World in the Grip of an Idea

Clarence B. Carson

## 15. Sweden: The Matrix of Tradition and Gradualism

To the north, Sweden extends into the Arctic circle. In summer, that portion of the country is in the land of the midnight sun. In winter, there is darkness at noon. Even as far south as Stockholm the sun does not ascend very high in the midst of winter. Such light as it gives for a short time is more like twilight than daylight. Indeed, it is appropriate to think of Sweden as a Twilight Zone.

Physically, Sweden lies very near

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

to the twilight zone between Soviet Communism and the Europe that yet enjoys considerable freedom. Its northern boundary is not far from that of the Soviet Union. Its southern boundary is across the Baltic Sea from East Germany. Socially, Sweden is in the twilight zone between tradition and the compulsion of socialism. Economically, Sweden is in the twilight zone between private enterprise and the controlled economy. Internationally, Sweden has long been neutral, a twilight zone inhabited by nations which refuse to take sides. Gradualism, or evolutionary socialism, is a twilight

zone, and Sweden has for a good many years been the reputed show-piece of that ideology.

### Why Sweden ?

There are several good reasons for selecting Sweden as one of the exemplars of evolutionary socialism. The most obvious reason is in some ways the least convincing: namely, Sweden's reputation as a socialist country. This, it turns out, is largely press agency. There should be no doubt that the idea that has the world in its grip has a firm grasp on Sweden; but Sweden is not socialist by conventional definitions, an important point to which we will return. Nevertheless, Sweden has had some forty years under the political leadership of Social Democrats, a party that is professedly socialist and has its roots in Marxism. Nowhere is the welfare state aspect of the idea more firmly imbedded.

Another reason for selecting Sweden is the place that tradition still formally holds in the country. Evolutionary socialism is everywhere national socialism (which is to say that it occurs within the framework of nations and partakes of the character of each particular nation), but even so there are two distinct political settings in which it has taken place: monarchies and republics. Sweden is a monarchy. As such, it belongs to a

configuration of nations, largely on the periphery of Europe, such as Denmark, Norway, the Netherlands, and England, which have thus far survived the thrust to republicanism which had its onset in Europe with the French Revolution. At any rate, Sweden has a monarch, an established church, and an hereditary nobility.

Such things are, of course, anathema to socialists. Every good socialist is *ipso facto* a republican, an anti-monarchist, an opponent of the religious establishment, and despises all signs of inequality—in theory, anyway. In practice, it has not worked quite that way. Evolutionary socialism has made some of its deepest inroads in lands with hereditary monarchs. Gradualism has proceeded most smoothly and with the least disturbance in these lands.

There is a reason for this. In republics, men are theoretically equal before the law, and they do not relish or readily accept the intrusions in their affairs that come with gradualism. To put it another way, republicans are generally anti-authoritarian, and socialists are bent on using the political authority to accomplish their ends.

By contrast, monarchs are the very symbols of authoritarianism. People living under them have been conditioned to accept the imposition of authority by those who rule.

Socialists may not be comfortable bedfellows with kings, but the exercise of arbitrary power is made easier for them when they have the royal authority behind them. Tradition, too, accommodates change, even those changes made by evolutionary socialism which destroy tradition at its roots. For these reasons, it is important to examine gradualism against a monarchical background.

There is yet another reason for selecting Sweden. Sweden is an industrialized country with a relatively high standard of living. As such things go, it is a prosperous country. When choosing examples, it is better to take from what are reckoned to be the best than to take the worst.

### **Evolutionary Socialism**

It is a considerable transition to shift from examining revolutionary socialism to evolutionary socialism. The existing differences should not be ignored. Revolutionary socialism is brutal, tyrannical, destructive, and dictatorial. Its most conspicuous fruits are totalitarianism and total war. The "law school" of revolutionary socialism is the concentration camp, as has been pointed out. Citizens in such countries are only by some degrees removed from slavery. Gradualism, in a country such as Sweden, is clearly an improvement over such conditions. It is,

however, only a shift from darkness into the twilight.

Revolutionary and evolutionary socialists are brothers under the skin. To put it in the terms of this work, communists, Nazis, and gradualists are ideological brothers. All of them derive their spring from the same central idea. That is, they aim to concert all energies toward common goals, to root out and destroy all cultural supports to the individual's pursuit of his own self-interest, and use government power to impose their programs. They differ as to methods, not as to goals.

There are two major differences between revolutionary and evolutionary socialism, along with subsidiary ones. One major difference is that evolutionary socialists are pragmatic rather than dogmatic. That is, they are pragmatic as to method though they may be equally dogmatic with revolutionary socialists as to goals. When they are being pragmatic, they may, for example, prefer the control of industry over ownership. In like manner, they may abandon one sort of approach in favor of another without any sense of betraying their goals. One way to say it is that they do not know exactly how socialism will be achieved, or when, but they believe that they are headed in the right direction so long as more and more control over affairs is being collectivized.



### Democratic Methods

Another major difference between gradualists and revolutionaries is that gradualists propose to achieve their ends democratically. They advocate and generally hold free elections, advance near universal suffrage, and permit a variety of candidates to enter the races for office. There is, however, a fundamental contradiction in their position. The implicit theory on which they operate holds that by the process of voting and election the government becomes the voice and arm of society. Society is, so to speak, politicized and empowered. (Rousseau's theory of the "general will" is the best known and probably most thorough exposition of this notion. It is set forth in *The Social Contract*.)

In fact, however, modern democracies operate by the rule of majorities and pluralities. Even if we assume that the output from voting machines could somehow be the will of society—a notion which puts considerable strain on the imagination—society is divided by democratic elections. Nor can it be otherwise if there are to be choices of candidates and positions.

Whatever the virtues of majoritarian rule, unity is not one of them. Yet it is essential to the idea that has the world in its grip that government should act to concert all efforts for the common good. If society is divided as to what constitutes

the common good, this can be but a forcing of some people's notions of the common good on others. Hitler's plebiscites and Soviet Communism's one-party slates are much more nearly consistent with the idea. It is fundamentally inconsistent to suppose that real choices can be made politically, that society can be politicized, and that there can be general accord on actions taken. If society could be politicized it would be polarized by every election.

Gradualists attempt to paper over this contradiction. Their programs are what "the people" want, they are given to saying. Theirs are "social reforms," they declare, implying somehow that they arise from society. Too, they attempt to narrow the gap between parties by having them all support similar ideas and policies. To the extent that they can get agreement that whatever is at issue is a legitimate concern of government, they tend to succeed in this. To the extent that they are able to keep the issue in the frame of how much and when, rather than whether, they tend to succeed also. These tactics tend both to obscure the real divisions among a people and enable gradualists to advance toward their goal step by step.

Gradualists generally preserve the *procedural* protections of civil liberties. Thus far, this is a critical difference between evolutionary and revolutionary socialism. Procedures

tend only to be a facade for revolutionaries, something to be ignored if they get in the way of the desired line of action. Procedural protections have generally enabled citizens in lands where gradualism holds sway to enjoy a considerable variety of civil liberties. But procedures are just that—established ways for government to act—not anything substantial.

### **Utilitarian Justification of Liberties**

There is no place in socialist ideology for liberties to be natural rights; their only theoretical justification is utilitarian. Utility is a slippery concept at best, and where the common good is arbiter of utility, utility is whatever those who have the power to determine it say it is. There are two other supports to civil liberty: tradition (which includes constitutions) and private property. Since gradualists are devoted to eroding away tradition and private property, the more they succeed the more precarious will be civil liberties.

Be all that as it may, there are important differences between revolutionary and evolutionary socialism. The differences become blurred in many countries of what is called the Third World. But in the constitutional democracies of Western Europe and America the differences are thus far clear and distinct.

The tyranny of communism is on a different scale and order from anything yet occurring in these lands. Gradualists operate within the framework of laws, however attenuated these may become, to achieve their ends. They do not usually crush groups; rather, they empower them within a framework of controls. It is the individual, then, who usually feels the weight of their force. He is isolated if he does not belong to some group. He is powerless, or nearly so, if he cannot conjure up some popular support. If he does not yield voluntarily to the weight of numbers, he will most likely be punished by the state. The individual's last line of defense is his property, but that is increasingly circumscribed as gradualism advances.

So it is in Sweden and in other lands where gradualism holds sway.

Even so, Sweden is not a socialist country by conventional definition. By the usual definition, socialism prevails when the government owns the means of production and distribution of goods. This is hardly the case in Sweden. Most of the productive enterprises in Sweden are privately owned. A London newspaper said, "Sweden has proportionately more private enterprise than any other country in west Europe."<sup>1</sup> The usual figures cited run something like this: about 4 per cent of the enterprises are state owned; 4 per

cent cooperatively owned; and the remainder privately owned. The state is deeply involved in iron mining, the railways, the airlines, atomic energy, making of alcoholic beverages, and such like. Most of the rest of manufacturing is privately owned.<sup>2</sup> It is most important to understand this when we come to discuss the sources of Swedish prosperity.

### **Astute Publicity**

The notion that Sweden is socialist, in the conventional sense, is made up partly of assumption and partly of astute publicity. Until very recently, the Social Democrats have headed the governments in Sweden since the 1930's. The Social Democratic Party originated as a Marxist party, shifted toward gradualism, but continued to claim to be socialist. The long years of rule gave the impression, which Social Democrats found more advantage to claiming than denying, that Sweden was socialist.

Many Americans got their notions about Sweden from a little book by Marquis Childs. It is called *Sweden: The Middle Way*, was first published in 1936, and has appeared in several editions and a good many printings. Childs hailed Sweden as the exemplar of the middle way between communism and fascism. The "wave of the future" which Childs thought he beheld in Sweden was collectivism

largely by way of cooperatives. However, Sweden did not develop along the lines that Childs foresaw in the mid-1930's. Cooperatives never gained much of a foothold in manufacturing and related enterprises, though they were somewhat more successful in merchandising. However mistaken his prophecy, Childs helped to spread the notion of a socialist Sweden.

If the Social Democrats had been bent on nationalizing Swedish industry, which some no doubt were, they never gained the kind of majorities that would have given them a free hand. Usually, they had only a plurality and had to govern along with some other party. They could ordinarily command only a slight majority in the *Riksdag* for much less controversial undertakings than the wholesale nationalizing of industries. But it is by no means clear that they would have gone that route had their support been much more substantial.

In any case, Swedish prosperity can hardly be attributed to socialism as it is usually defined. Moreover, it is greatly to be doubted that socialism, however it may be defined or extended in meaning, plays any significant role in that prosperity. There are other and more cogent reasons which provide a sufficient explanation for that.

Sweden has some important natural resources and advantages of lo-

cation. Perhaps the most impressive natural resource is the huge reserve of some of the finest iron ore in the world. Much of Sweden is forested, and lumbering, paper, and pulp are major industries. Streams in the north with their origins in the mountains provide the basis for numerous hydroelectric dams. Although Sweden lies north of the United States in latitude the climate is much milder than might be supposed, particularly in the south, owing to warming by the Gulf Stream. Hence, farming flourishes in southern Sweden. For the same reason, ports are generally open year round on the Baltic. Shipping and shipbuilding are major industries in Sweden.

### **A Trading Nation**

What Sweden lacks, above all, are deposits of coal, oil, and gas. These must be imported, and Swedish industry and prosperity depend upon foreign trade. Indeed, Sweden is one of the major trading nations in the world. Fine Swedish steel has long enjoyed an international reputation, and Swedes compete on the world market in some of the most advanced products of modern technology. It may well be that the Swedes are addicted to modernity as much as or more than any other people in the world.

Sweden has enjoyed and benefited from over 160 years of being at

peace at home and abroad. The country has not gone to war since the end of the Napoleonic wars. The Swedes have been in our era if not the most peaceful people at least among the most neutral. Their energy and vitality have not been sapped by war, and their cities and countryside have not been destroyed by an invader. True, the Swedes maintain a considerable military establishment, and their troops have gone forth in recent times on call from the United Nations, but Sweden continues to enjoy the benefits of peace.

The Swedes have been a remarkably homogenous people ethnically and religiously. This may have contributed little to their prosperity in recent times, but it has probably made it much easier to remain at peace. Minorities, when they are very numerous, sometimes—oftentimes—make for internal discord, and if they are recently from other lands they may well promote involvement in wars.

At any rate, the Swedes are very nearly separated from the mainland of continental Europe by the sea, joined by land only to Norway and Finland, and have not been troubled for a long while by invasions or propulsive migrations of other peoples. Until the twentieth century, the flow of Swedes was outward rather than of other peoples toward them. The Vikings pressed down-

ward upon Europe in the Middle Ages, and many of them settled there. Even as late as the latter part of the nineteenth century, there was a massive Swedish migration to the United States. By contrast, other peoples have not been drawn to Sweden. Before the twentieth century, the people were generally poor, and the climate is such that only Eskimos, Finns, and some Norwegians would find it an improvement.

### **Religion and Other Factors**

As to religion, most Swedes are technically Lutherans, as their forebears have been for centuries. There is only a scattering of Jews and Roman Catholics among them, and the "free" Protestant churches have drawn but a few into their fold. Motorcycle riders are more numerous than any of these minorities, are probably more influential, and are certainly more likely to disturb the peace.

Resources, location, peace, and other such conditions are but potentialities, however. What makes the difference is the use of resources, the taking advantage of location, and the following of productive peaceful pursuits. Location and relative weakness may have contributed to Sweden's neutrality, but the peace achieved has been the result of a more positive concept than that. It has been the concept of a world drawn together in trade, in intellec-

tual interchange, free movement of people, and living in mutual tolerance of one another. The Swedes appear to have grasped more clearly than most that their prosperity and well-being was dependent on a far-flung trade which worked best in times of peace.

More than anything else, it was the triumph of liberalism in nineteenth century Sweden which loosed the energies of the people who began to change the potentialities of their condition into the actuality of productivity and prosperity. The foundations of Swedish prosperity were laid in a series of developments which took place between 1750 and the third quarter of the nineteenth century.

### **Land Reforms**

The first major development was the break-up of the medieval pattern of farming. This occurred by two related developments: the enclosure of land into consolidated holdings, and the acquiring of more and more land privately owned as small and medium-sized farms. Swedish tenants had customarily tended several small strips of land spread out over an estate. The consolidation of holdings began in the latter part of the eighteenth century and continued apace in the nineteenth century. As a result, there was considerable increase in agricultural production.

Another major development was the freeing of trade. Sweden was, in the Age of Mercantilism (seventeenth and eighteenth centuries most notably and disastrously), under the sway of mercantile practices. The Swedish government levied tariffs on exports and imports, granted monopolies, subsidized production, and restricted domestic trade. These restrictions may well have peaked just after the Napoleonic wars when hundreds of items were placed on a forbidden list. The results were disastrous.

By the 1820's a counter trend was getting underway, and by 1860 trade was substantially free so far as the Swedes were concerned. Accompanying the establishment of free-trade was the freeing of enterprise generally from the fetters of mercantilism. Free trade is often thought of as an absence of or very low tariffs. This, however, is only its most obvious surface feature. What is more deeply involved is the opening of the way for whoever will to offer his custom in the market-place. At its outermost reaches, it is free enterprise.

When enterprise was substantially freed, there was a rapid growth in industrial and agricultural production. These developments are well described by a historian of Sweden:

Previously, most of Sweden's iron had been exported, but during the last de-

cadec of the nineteenth century, a rising proportion of it was used to feed her own industries. . . . While factories and work shops were widely scattered, the town of Eskilstuna became the "Sheffield" of Sweden. And Norrköping became her Manchester for this and Boras . . . were the leading textile centres of the country. Expansion here was not so dramatic, but twice as much cotton was spun in 1900 as in 1870. In addition to these key enterprises, a host of other forms of manufacture either, like the chemical, electrical and cement industries, appeared for the first time, or were greatly expanded during the period.

. . . In 1860 farming methods were fundamentally little different from what they had been in the seventeenth century. The following decades, however, brought a great transformation. Iron ploughs and harrows began to be widely used, and harvesters and other mechanical devices were rapidly adopted. The use of chemical fertilizers and the improvement of seed by selection raised the productivity of land already under cultivation, while many marshes were drained and wasteland made fertile. . . . In dairying, the use of the mechanical cream separator, invented by the Swede Gustaf de Laval in 1878, greatly increased the output of butter, which again became one of Sweden's major exports. . . .<sup>3</sup>

These were the conditions within which the Swedes became much more productive and relatively prosperous. No sooner, however, did they substantially increase their productivity than did the gleam of redistribution appear in the eyes of

their politicians. The justification of both redistribution and control over production was found in socialist ideology. The Social Democrats, carriers of revisionist Marxism, have been the main proponents of this ideology in twentieth century Sweden, but they have been aided and abetted in their endeavors quite often by the members of other political parties. They have made great headway in putting many of these ideas into practice.

### **Welfare State Capitalism**

Before getting into that, however, one point needs to be re-emphasized and a new one made. The point that needs to be re-emphasized is that most industry in Sweden has remained in private hands. Thus, private enterprise (not to be confused here with free enterprise) is the basic source of such prosperity as the Swedes enjoy. The new point is that the economic system which prevails in Sweden might best be described as Welfare State Capitalism.

Some little explanation of the phrase—Welfare State Capitalism—may be helpful. There are those who use the word "capitalism" in a laudatory sense, and they are apt to equate it with the free market and free enterprise. Socialists usually use the term invidiously. Even so, capitalism is a socialist concept; Karl Marx

popularized it. Those who think to pre-empt the term and give it a favorable connotation might do well to reconsider.

"Ism" smacks of ideology; and ideology smacks of some scheme to use the power of government. However that may be, *capitalism* denotes a preference for or bias in favor of capital expenditure or investment. Socialists use the term to connote a system in which private capital and capitalists are accorded special privileges. The connotative uses of capitalism have entered into the rhetoric which those of all persuasions employ, and there is little likelihood that will change in the foreseeable future; but it is important here that the word be used with as much analytical precision as can be attained.

### **How Capital Originates**

All peoples use capital, i.e., make capital investments. The savage who has an instrument to remove the husk of a coconut is a user of capital. The primitive who saved seed and used an implement to furrow the soil was a capitalist. Every economic system is, in this sense, capitalistic in that capital is employed to increase production. The only possible difference is in how the capital is provided. There are two basic ways of doing this. One is for individuals to save and invest voluntarily. The other is for the gov-

ernment to take the money from individuals—to confiscate it, that is—and for the investment decisions to be made by those who rule. When the first system prevails it is sometimes called private capitalism. When the second prevails it can be called state capitalism. Such a system is generally employed in the Soviet Union, for example.

Variations and combinations of these two basic systems are possible. The most common combination has been joint financing of projects by private investors and money raised in some fashion by government. Another variation is for government to promote saving and capital investment by tax policies. Sweden has used both these methods, but predominately it has provided tax advantages in order to foster capital formation and investment.

One way this is done is by the Investment Funds. These were first authorized by law in 1938, and the enactment has since been amended several times. "The current position is that by law, every company is permitted to set aside 40 per cent of its profits before tax in any year to an investment fund. There are, however, restrictions attached to this concession. Forty-six per cent of this money must be deposited interest free in a blocked account in the Central Bank of Sweden and can only be spent on authorisation either by the Crown or by the

Labour Market Board for specific projects concerned with investment—the only exception is that after five years a company can spend up to 30 per cent of the money set aside without authority from the Board provided this is on a capital project."<sup>4</sup> Since taxes on profits of corporations are high, on the average about 54 per cent when those of the central and regional governments are combined, there is considerable incentive to place money in the Investment Funds.

### Investment Funds

The other major device for promoting investment is the depreciation policy of the government. All capital expenditure from the Investment Funds must be fully depreciated within twelve months of the outlay. All other capital expenditures must be depreciated fully within five years, either in equal installments or on a pre-arranged scale. The result: "There is pressure on the companies to maintain a steady stream of investment with a major installation at least every five years, both to obtain the depreciation tax allowance and to even after-tax profits."<sup>5</sup>

It would help in clarifying our thinking if the word *capitalism* were reserved for use to refer to those systems in which the compulsive power of the state is used to form capital and direct its investment or to instances of it. Why?



Because in a free economy there is no preference for or bias in favor of capital expenditure. Nor is it at all clear why there should be preference for capital expenditure over any other in public policy. It may appear that in view of all the benefits that accrue from capital a bias in favor of it might be in order. But appearances can be deceiving, and they are in this case. It happens that capital expenditure can be wasteful and counterproductive. No benefit would presumably result from expenditure to produce a product which no one wanted. Such expense would be a waste of scarce resources.

There will undoubtedly be instances of malinvestment in a free economy, for there is no certainty that any investment will pay off. But there is a sure way to achieve wasteful and counterproductive capital expenditure. It is to separate the ultimate investor from the responsibility and benefits of careful management as occurs in state capitalism, or to make capital expenditures profitable by tax breaks and depreciation allowances. (In a free economy, taxes would fall only on individuals, not on fictitious entities such as corporations and companies. Hence, there would be no occasion for depreciation allowances and some portion of the present crop of Certified Public Accountants.) It would be descriptive to refer to such systems as *capitalism* and *capitalis-*

*tic*, and they could have whatever onus anyone wished to attach to them. They would describe a preference for or bias in favor of capital expenditure.

### Identifying the Ideas

Since current usage is generally either rhetorical or propagandic, it is necessary to add qualifiers in order to make them as nearly as may be descriptive. The terms private capitalism and state capitalism may be reasonably precise. I here add the phrase, Welfare State Capitalism, by which I understand government policies, such as those in Sweden, aimed at promoting capital expenditure in support of the welfare state. A Swede put it this way, "The state keeps the cow fat in order to increase the amount of milk it can get from it." That is, of course, only a felicitously phrased half-truth. There is evidence that the "cow" is bloated rather than healthily fat in some industries, such as shipbuilding, for instance; and there are critical shortages, such as in housing, due to misallocation of funds. It is well to keep in mind, too, that Sweden's tax policies are aimed not only at fueling the welfare state but also at bringing industry under centralized planning.

Even so, the main point here is that Sweden does not have socialism as that word is understood. The government may be gradually killing

the goose that lays the golden eggs, but to date it has put maximum pressure on the goose to lay more eggs. So much has been told to make it clear that the sources of such prosperity as Sweden enjoys are in private industry.

Yet Sweden is deeply under the sway of the idea that has the world in its grip. And that idea can be identified with socialism usually. To understand how this can be, it is necessary to expand our understanding of socialism. The heart of socialist doctrine is the idea of purging the individual of his pursuit of self-interest. The main line of attack is on the inherited culture and tradition—on the family, the church, education, morality, and society itself. In place of these will come government power. That is what has been happening in Sweden.

On the face of it, tradition is honored and preserved in Sweden. This is largely an illusion. Sweden has a monarch, but he does not rule. He sits in at the formal cabinet meetings for the perfunctory presentation of matters that have already been decided, but he may only enliven proceedings by remarks, not by participating in the decisions. Sweden has an established church with

beautiful buildings lavishly furnished, but few people attend except at Christmas and Easter. Sweden's industry is largely privately owned, but the independence of investors has been eroded away. Sweden has an elected legislature, but the fount of decisions is usually the advice of experts. What remains of tradition has perhaps more importance than the restored hull of a medieval Viking ship which has been raised from the bottom of the sea to be put on display in one of the cities, but not much more. Tradition has been eviscerated in favor of gradualism.

The story of how this has taken place needs now to be told. ☉

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Next: 16. *Sweden: The Paternal State.*

#### —FOOTNOTES—

<sup>1</sup>Quoted in Donald S. Connery, *The Scandinavians* (New York: Simon and Schuster, 1966), p. 66.

<sup>2</sup>Paul B. Austin, *The Swedes: How They Live and Work* (New York: Praeger, 1970), pp. 89-90.

<sup>3</sup>Stewart Oakley, *A Short History of Sweden* (New York: Praeger, 1966), pp. 208-09.

<sup>4</sup>H. G. Jones, *Planning and Productivity in Sweden* (Totowa, N.J.: Rowman and Littlefield, 1976), pp. 22-23.

<sup>5</sup>*Ibid.*, p. 31.

# 10 Rules for Understanding Economic Development

DURING the past thirty years, concern about economic development has reached unprecedented heights. Academic writers, periodical editors, foundation directors, and governmental officials have expended much time and effort in attempting to understand why economic development occurs, why it proceeds more or less rapidly, and how to hasten it where it appears too slow. Unfortunately, as a distinctive field of economic development studies has emerged, complete with textbooks and scholarly journals, a body of misconceptions and myths also has emerged to diminish the potential fruitfulness of these efforts

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to understand the process of economic change.

Significant progress would result from following ten simple rules of inquiry. Their value is, for the most part, self-evident; but readers familiar with the literature of economic development will recognize that they are more often ignored than obeyed.

**1. DO NOT DICHOTOMIZE THE NATIONS OF THE WORLD.** Almost all writers have classified the nations of the world (sometimes only the noncommunist world) as either rich or poor, developed or developing, more developed or less developed. This dichotomization is both false and misleading: false because the nations do not fall into two neat camps; misleading because such a division encourages the

search for explanations of poverty that, with more or less sophistication, blame it on the rich. In fact, by any measure one cares to use (e.g., income per capita, literacy rate, expectation of life), the nations of the world occupy a continuum, not a dichotomy. The richest and the poorest countries differ starkly, to be sure, but between them lies an enormous variety of intermediate conditions. As one descends from the United States and Sweden through Greece, Mexico, and Turkey, to reach India and Ethiopia, where can a line be drawn to separate rich from poor?

**2. DO NOT PERSONIFY THE NATIONS OF THE WORLD.** How often does one read that "Brazil has done this, India has done that." Usually, what is meant is that a certain Brazilian or group of Brazilians has done this, a certain Indian or group of Indians has done that. Nations are abstractions; they do not act. Of course, no one openly disputes this obvious fact; and everyone knows that economy of expression sometimes warrants the personification of a national society. Yet such usage subtly supports the implicit and mistaken notion that all members of a nation are alike in essential respects, that all share the same conditions, attitudes, and objectives. Nothing could be farther from the truth. Brazilians, like Indians,

Thais, or any other people, are diverse in the extreme. They differ greatly in their conditions, attitudes, and objectives. To suppose that "Brazil does such and such" is to overlook the rich diversity of the individuals who, in the aggregate, constitute the Brazilian nation. It is especially important to notice that many individuals and groups in the poorer countries are rich, and many individuals and groups in the richer countries are poor.

**3. DO NOT ASSUME THAT THE POORER NATIONS ARE NOT DEVELOPING.** Writers who set out to explain "economic stagnation" or "low level equilibrium traps" are addressing themselves to rare circumstances. By any accepted measure (e.g., income per capita, literacy rate, expectation of life), most of the poorer nations are currently de-

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"Underdeveloped countries may be poorer and weaker from an economic point of view than the developing ones, but the painful symptoms from which they suffer are the same and the disease is the same, no matter whether it is called 'interventionism,' 'statism,' or 'collectivism.'"

*Gustavo R. Velasco*

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veloping. Moreover, their rates of development compare favorably with those experienced either historically or currently by the richer countries. This rapid change is not an artifact of social accounting. Close observers of such countries as India, Egypt, and Peru (supposedly slowly developing countries) report sweeping changes in the mode of economic life. In such places as Thailand, Greece, and Mexico the rapid pace of change is even more obvious. To picture the poorer economies as tradition-bound, stagnant, and resistant to change is to accept a false description of current reality. Only a few backwaters remain to fit this long-accepted characterization.

#### **4. DO NOT CONCEIVE OF DEVELOPMENT AS SOLELY ECONOMIC.**

Economic development revolves around the growth of economic productivity, but such growth takes place as a result of changing human actions. Changes in economic behavior cannot be viewed in isolation from other dimensions of human action. People raise their productivity in order to gain comfort, wealth, status, power, or security, the principal impetus varying from one individual to another. The incentives that encourage or discourage productivity-raising behavior emerge from the institutional, cultural, and historical environment within which the individ-

uals act. Changes in this environment must precede wide involvement in the search for higher pro-

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“The value of American aid to underdeveloped countries, while scarcely negligible, is basically limited, because (a) growth requires more than capital, and (b) ‘saving’ must be done by the growing country itself.”

*William R. Allen*

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ductivity. Perhaps the impetus comes from contact with another culture or from foreign technical knowledge, from new religions or novel organizational schemes. In any event, economic changes grow out of changes in the noneconomic environment. Human behavior forms a whole. To imagine economic development occurring without corresponding developments in the rest of society is grotesque.

#### **5. REMEMBER THAT ECONOMIC DEVELOPMENT IS INHERENTLY DISRUPTIVE AND COSTLY.**

While economic development augments the comfort, wealth, status, power, and security of some people, it concomitantly diminishes these desirable things for other people. One man's innovation often implies another man's obsolescence. And as

individuals, few can escape the varied, undesirable side-effects of the development process. Friedrich Hayek expressed this problem eloquently:

. . . it is not certain whether most people want all or even most of the results of progress. For most of them it is an involuntary affair which, while bringing them much they strive for, also forces on them many changes they do not want at all. The individual does not have it in his power to choose to take part in progress or not; and always it not only brings new opportunities but deprives many of much they want, much that is dear and important to them. To some it may be sheer tragedy, and to all those who would prefer to live on the fruits of past progress and not take part in its future course, it may seem a curse rather than a blessing.<sup>1</sup>

**6. DO NOT POSTULATE THAT ECONOMIC DEVELOPMENT IS THE SOLE OBJECTIVE OF SOME (ANY) RELEVANT DECISION MAKER.** Simply put, people value many things, and economic development is only one of them. As Peter Bauer has insightfully observed:

. . . conventional incomes could be increased by forcing people to work longer hours or to transfer to more lucrative but also more arduous or for some other reason less-preferred occupations.

Housewives could be forced to go into paid employment. In fact countless people in rich and poor countries could be compelled to increase their conventional incomes by forcing them to give up working habits, attitudes and beliefs which they cherish. It is bizarre to say the least to describe people as irrational for not trying to maximize conventionally measured incomes. It is an approach which disregards people's own preferences in such matters as life expectation, possession of children, working habits, personal values and social mores, including personal preferences for leisure and contemplation against higher conventional incomes; it also disregards considerations of national security.<sup>2</sup>

**7. DO NOT PROJECT YOUR OWN TASTES AND VALUES ONTO OTHERS.** To assume that everyone wants what I want, and will bear the same cost to get it, is certain to mislead. Tastes and values differ enormously among the people of the world. If the poor Indians would only eat their sacred cows, they could avert the threat of starvation—advice that is easy for me to give, but rather difficult to take for people deeply committed to the inviolability of all animal life. A long and laudable list of human values (e.g., loyalty to family members in Latin America, devotion to a contemplative style of life in Asia, adherence

<sup>1</sup>Friedrich A. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), p. 50.

<sup>2</sup>P. T. Bauer, *Dissent on Development* (Cambridge, Mass.: Harvard University Press, 1976, rev. ed.), p. 200.

to tribal customs and traditions in Africa) has been held up by development enthusiasts as "barriers to progress." How narrow our vision; how insensitive our appreciation of the values of others.

**8. DO NOT ASSUME THAT COMPREHENSIVE GOVERNMENTAL PROGRAMS ARE NECESSARY TO CREATE OR ACCELERATE DEVELOPMENT.** All the countries of Western Europe and their offshoots in the New World, as well as Japan, managed to develop without comprehensive governmental planning. Many poorer countries (e.g., Greece, Spain, Mexico, Taiwan, South Korea, Thailand) also are doing so. Yet the notion is widely accepted that development requires com-

prehensive governmental planning. Ultimately, the case for comprehensive planning reduces to the simple fact that some (including the planners) wish to coerce others to do what will not be done voluntarily.

If people want economic development enough to bear its costs, they voluntarily take the actions that promote it. They migrate to locations of superior economic opportunity, innovate on farms and in factories, obtain better educations. If they do not consider the net gains sufficient, they will abstain from such actions. How ironic, then, that the planners should attempt to "improve the welfare of the people" by compelling them to bear costs that, in the people's own judgment, outweigh the corresponding benefits.

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"You can be sure that if each Asian worker were backed by \$30,000 in capital, there would be no mass starvation and no 25-year limit on the average life span. Such is the miracle of wealth. Only a few know how to create it. And the impartial and all-wise free market will distribute it in a manner which creates harmony rather than conflict among men."

*Harry Lee Smith*

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**9. DO NOT ASSUME THAT GOVERNMENTS ARE IMPARTIAL AND BENEVOLENT AGENCIES TO PROMOTE THE PUBLIC INTEREST.** Governmental officials are not, in general, disinterested humanitarians. More commonly, they are self-interested bureaucrats, politicians, soldiers, and dictators. In any event, they are members of the society they rule, and each brings to his office the preferences and loyalties characteristic of his own class, religion, region, and ideology. Even if the rulers sincerely wished to promote the "public interest," however, they could not do so. The public has

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“When a businessman is granted a tax concession in any country, he would be well advised to prepare himself for the confiscatory taxation or nationalization that will soon follow.”

*P. Dean Russell*

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many interests; indeed every individual possesses a unique and multifarious set of interests.

It is sometimes said that people do not know how best to serve their own interests, and that therefore the government must act to fill this gap in knowledge. Of course, a governmental official may know something that I do not know and could benefit from knowing. But the converse is also a possibility. In particular, my precise circumstances and desires, ever changing as they are, can hardly be known to anyone but me. The same can be said, of course, for almost every individual.

Governmental officials simply cannot be relied upon to possess superior knowledge. As Hayek says, “Compared with the totality of knowledge which is continually utilized in the evolution of a dynamic

civilization, the difference between the knowledge that the wisest and that which the most ignorant individual can deliberately employ is comparatively insignificant.”<sup>3</sup> And even if governmental officials did possess superior knowledge, they could not, for obvious reasons, be relied upon to put that knowledge to good use. As Scott Gordon once put it, “How much enthusiasm for statism would evaporate if one were to assume that the government will be run by people like Haldeman and Ehrlichman?”<sup>4</sup>

**10. DO NOT FORGET HISTORY.** If this rule were strictly followed, the others would be largely superfluous. Yet development economics, a quintessentially historical subject, has been practiced mainly by researchers with neither much knowledge of nor interest in history. Economic development, however, is a historical process. To neglect history is to neglect the facts of the matter. And an empirical study that neglects the relevant facts is an absurdity. ⊕

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<sup>3</sup>Hayek, *op. cit.*, p. 30.

<sup>4</sup>Scott Gordon, Review of *Business Civilization in Decline*, by Robert L. Heilbroner, in *Journal of Economic Literature* 15 (March 1977): 103.





Ridgway K. Foley, Jr.

# The Problem with Power

WHAT EFFECT does the action of one man exert on the life of another? How much control ought a single individual, or a group of individuals, impress upon the destinies of others? These inquiries represent the meat and marrow of the considerations underlying the purposive human action.

Let us state our abstract premises: no man ought to initiate force against another individual, or defraud him in any manner; each person should be free from restraints imposed by other men, singly or in the collective, and should be permitted to seek his own fortune; application of coercion gains justification only to thwart prior privately initiated force or fraud and to sanction a common and equal mode of settling

disputes between inhabitants which they cannot adjust by themselves.

Against the backdrop of these principles, consider the concept of power. One may define power as a position of ascendancy over another person, object, or situation; it concerns the ability to control a situation or to coerce obedience to a command. A person manifests power when he possesses the capability of acting and of producing a given effect by his actions. Power partakes of coercion and force; it means dominion and control, in this milieu dominion and control of one or more men over the lives and destinies of other human beings.

Thus stated, power represents the antithesis of freedom. Those who love liberty should eschew power and seek self-determination and noninterference with the lives of others. Such an easy answer: easy

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statements in the abstract often present difficult concepts in the application. The core is apparent, the penumbra indistinct. A lesson learned with difficulty involves a life lived without recourse to power over others.

Slight insight illuminates the reason why we can express a distaste for power in our philosophical guise and yet fall prey to its allure in our daily lives. Man, by nature, exudes sympathy; he seeks to do well, for himself and for his fellow man. Each man, convinced of his own infallibility, sincerely believes that he can better the lot of mankind if only his way represents the chosen path.

### **"There Ought to Be a Law"**

How often have you heard one say "there ought to be a law"? Even the most dedicated libertarian sometimes slips into this easy way of thinking: if only we could compel people to be free, or to accept the free market philosophy, or to treat their neighbors with kindness and love, the world would become such a better place. The ordinary method which comes to mind when one aims to secure laudable goals involves the use of power—but for a "good" purpose. Frustration takes control when the stubborn wills of others impede the attainment of ends which the actor believes desirable, right, or necessary.

Consider the individual who holds views similar to those expressed here. All about him the world crumbles by reason of adherence to the socialist tenets concerning the production of abundance by means of people control. Man appears chained to useless laws and insipid politicians. "If only we could elect a libertarian president and propose laws compelling citizens to accept gold coins or bullion as legal tender," runs a common lament. Yet such political moves, based on power, would not solve our problems. One should not decree that any material be legal tender; men, trading freely, ought to determine by their market choices that which will be acceptable: gold, butter, or aardvarks. Election of a libertarian president encompasses a solution only if such a man would act solely on the principles of liberty and carefully avoid any trespass upon the rights of free men to act freely in all endeavors beyond the proper jurisdiction of the state.

On a purely personal scale, one recognizes intrusions of power into almost every facet of life. How often have we discerned an apparent devotee of the freedom philosophy serving on some board or commission in a governmental capacity, wholly unaware of his inconsistency and infidelity to the faith? The rule should hold true, whether the participant is a free market economist

asked to serve on the Federal Reserve Board, or a local businessman appointed to a state park commission: unless the activity promotes the administration of justice or thwarts the initiation of force or fraud, the committed free man ought to decline the position, with explanation, so that his actions resound in the community.

### **The Tendency to Trample Rights**

Even the committed freedom philosopher exhibits a predilection to ignore the choice-making rights of his fellow and to impose his will upon his neighbors. The ordinary citizen, unhampered by a devotion to personal freedom and individual responsibility, offers a much more likely source of abuse of power. In addition to the natural attributes of sympathy, empathy, and a desire to do good, the human condition displays a perverse tendency to exploit his coinhabitants once a person gains ascendancy. It is this bifurcated character which distinguishes man from the angels and from the beasts: man, finite and fallible, can soar to great heights but he can never quite abandon his lower nature, that shadowy side predestined to coercion and violence.

Power represents the dark side of man's nature, a proclivity which demands ever vigilant attempts to conquer. Persons ascendant over others seldom employ that power in

harmony with the desires of the subjugated. Reason tells us why: no man possesses the talent and insight to determine the best course of action for another man. *And*, most men in dominant positions don't even evince the impulse to discern and secure those goals.

Given this ugly part of man's nature, and his inclination to subdue and direct those under his sway, one can readily see that rights become trampled in the process. The individual's right (and obligation) to make his own decisions and to choose between alternatives comprise these rights destroyed. *And*, a right once lost cannot be reclaimed; it is gone forever, and with it a veritable part of the humanity of the possessor.

Suppose you desire to purchase furniture for your home. I, as lawmaker, impose price controls and a minimum wage law upon all furniture manufacturers. As a result, one-half of the furniture producers who would have occupied a free market are driven from business by their inability to achieve a profit under such circumstances. By my exercise of power, I have limited your choice and deprived you of meaningful alternatives. Once I have impeded your action, you will choose furniture from the stores remaining. You can never reclaim your widest range of choice because other real or potential producers

have been excluded from the market by my action.

Again, you create value by producing and selling the service of delivering household goods to customers. You convert this created value into a medium of exchange and use the latter to trade for other goods which renders your life more enjoyable and worthwhile. I, possessing power as taxing agent, or as commissioner of a public dock, or as a member of the welfare bureau, or in any of a thousand other capacities, deprive you of some of your created or converted value, in the form of taxes. I use these tax funds to audit returns, or to pay for improvements to a dock which benefits a few persons, or to buy socks or soup for welfare recipients, or for myriad other public deeds.

Once I exert my power and reduce your store of value, by whatever means or name, I have deprived you forever of a choice. Unhindered you might have spent those tax funds for food, clothing or shelter, or for time-pieces, amusements, or pencils. Now, possessing less value, you will purchase either less of the commodities desired or some items to the exclusion of others. Once again, my exercise of power has ultimately narrowed your range of choice beyond regeneration.

Power, by its very essence, involves obliteration of the rights of some person. To command or to

exercise authority over a person or an event conjures up only situations where the one in power makes decisions affecting the rights and liberties of other individuals. One may cede power to another voluntarily, or one may usurp power coercively. Condemnation attends coercive action only, not voluntary choice. When a party establishes a trust, a guardianship, or a conservatorship, when he employs a financial adviser, investment counselor, or a lawyer, he in effect surrenders power over a part of his life, value, and affairs to another individual or entity. He may make an improvident choice, but freedom utters no promise of success. The distinction drawn between a voluntary and a coerced choice is simply that in the former case, the purposive actor makes his own decision, while in the latter case someone else makes his decision for him.

### **Robbed of Choice**

Power represents freedom's antithesis whether one voluntarily relinquishes his choice or the state coercively deprives one of his choice. Voluntary forsaking of choice harmonizes with liberty, however, in the sense that man can choose not to choose. Compulsive divestiture of choice represents quite another matter, for here the individual loses all chance to choose.

Finally, power feeds on itself.

That murky side of human nature contains the predisposition to apply power; it likewise encompasses a drive to enjoy the assertion of power over another. It is this impulse above all others against which one must guard in his daily endeavors, so subtle is its blandishment. Related to, but wholly distinct from, the disposition to believe that only the actor knows and can achieve the proper result, the lust for power for power's sake permeates each being.

A crafty, almost imperceptible, desire to employ dominion over others pervades our lives. In part, this trait relates to self-interests: each person desires to get his own way in almost all matters. But more than that, man generally enjoys the feeling of exultation collateral to command. Each of us must labor exceedingly hard to bridle this drift in all of our actions, a tendency commonly apparent in the drive of political, business and labor leaders who have outlived their usefulness to strive to retain their seats of jurisdiction.

### **Liberty Surpasses Power**

Recur to the earlier suggestion that man displays the decided tendency to seek noble goals by the exercise of power with its concomitant deprivation of choice. Despite the near-universality of this ingrained instinct, the opposite is true: praiseworthy ends gain attainment

through voluntary action rather than coercive application of force.

Most phenomena require acceptance by faith; seldom does nature afford us absolute, logically positive, proof. Instead, we gather sufficient evidence to induce conviction, and pronounce a value judgment by way of conclusion. I desire to cross a street; I look both directions and listen attentively before I embark upon my way; I cannot say with absolute certainty that no vehicle will jar my journey for one might silently glide around the corner, but I have gathered sufficient evidence to cross the street in a sense of safety. Or, one person may express devotion to another in myriad ways; the recipient of the affection can never be positive about the actor's commitment, but after the passage of time and the accumulation of evidence, he or she can reach a reasoned decision concerning the relationship.

The truth discussed in this section thus rests on faith. One cannot *prove* to an absolute certainty that freedom works better than slavery, although rational and empirical evidence preponderate in that regard. One can never unequivocally demonstrate that, in a given situation, liberty would produce a better material and spiritual result than coercion. For one thing, spiritual benefits are not subject to proof. For another, mankind does not exist in a

controlled situation where human experiments can be conducted. No one can measure the damage to the person of one deprived of his choice-making abilities, nor can we repeat exact situations in a controlled and a free state.

Nevertheless, those of the libertarian persuasion steadfastly maintain, on faith and upon sufficient available evidence, that avoidance of power will permit a more desirable outcome than will the use of coercion. One cannot adequately explain why a concatenation of human lives takes place, but by and large, such a meshing does occur naturally and regularly. Power corrupts the natural process and thwarts the attainment of important goals; freedom lights the way to achievement.

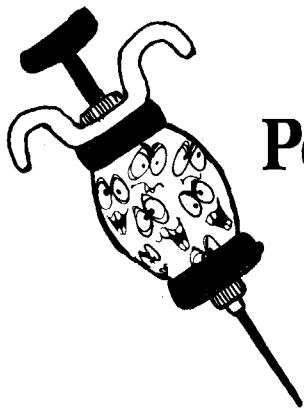
### Declining the Office

Suppose the effect upon the state, the nation, and the world if each potential appointee to a seat of coercive power reacted to the appointing agency, quietly, thoughtfully and in good taste, without rancor or snobbery, expressing his disinclination to serve in any predatory capacity.

Obviously, one cannot reasonably anticipate such universal action. However, the act of one man, or a few persons, rejecting impropriety and spurning power, can serve a dual purpose: first, these actions shine as a beacon for others to observe, consider and emulate; second, these ac-

tions give heart to the weary and frustrated who may rest on the verge of relinquishing all hope for freedom. Surely such an act of rejection will be understood and applauded by a few, viewed darkly by some others, laughed at and reviled by many, and ignored by most. Yet, just such a stand as this gains justification because it reflects adherence to the sound principles of liberty and justice. Right actions may not bring material rewards, but spiritual compensation abounds.

What kind of response should appointment or proposal for appointment or election generate? The riposte must fit the offer, the mood, the community, and the times. No one answer covers every situation. Letters, press conferences, interviews, prepared statements, all suggest possibilities. Likewise, the content of the response demands conformity to the requirements of the event. One can only offer suggestions, not commands. Two justifications light the response: *explanation* of the action in fundamental terms not scourged by rhetoric or shibboleth, so that some may comprehend and heed the deed, and *action* consistent with a faith in freedom. Individual application of these principles to the appropriate opportunity will swell the tide of principled liberty and diminish the unbri-dled application of power. ☉



# Political Medicine Breeds Social Conflict

THE advocates of socialized medicine are mostly daydreamers who neither understand the intricacies of medicine nor the economic facts of life. Their words may sound compassionate and noble when they expound the virtues of a national health service that is "to secure that everybody in the country, irrespective of means, age, sex, or occupation, shall have equal opportunities to benefit from the best and most up-to-date medical services available." But in reality, the medical system they can deliver, even when the considerable resources of the Federal government are put at its

disposal, is inhuman and highly discriminatory. It puts politicians and their appointees in charge of an extremely important service. It is wasteful of human labor and economic resources, and above all, it generates bitter political conflict harmful to social peace and cooperation.

Medical services, like other services, are subject to a basic economic principle: the demand for any "free" service outruns any possible supply. After all, it is basic to human nature and action that the demand for any economic good or service is unlimited as long as it is "free" and obtainable merely by asking.

When the demand greatly outstrips the supply, the political authorities offering the free services and thereby creating the imbalance

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then face agonizing decisions. They may choose to suppress the unlimited demand by rationing and regulation, and simultaneously expand the supply through ever larger outlays of public funds. Nevertheless, the imbalance can never be corrected as long as the services remain free and their potential demand unlimited. But it is likely to create serious political conflicts on the measures to be taken.

### Limited Funds

Government resources are always limited to the income and wealth that can be taken from its people by taxation, borrowing, or inflation. When a national health service is to receive more public funds, they must be taken from the people. The victims resent and oppose the measure that reduces their income and wealth and limits their spending discretion. It provokes a serious political conflict between the advocates of national health service spending and the victims who are supposed to provide the financial means.

But, the sharpest conflict is likely to ensue between the various recipients of public funds. The growing needs of a national health service are in direct competition with the demands of social security, government spending on education, welfare, housing, and all the other demands on the limited resources of

government. All will fight over the government dollar, proclaiming emergencies and clamoring for top priorities.

The fight over public funds is a political fight that is decided from year to year on the floor of the U.S. Congress. When the Congress adopts the U.S. budget, it imposes a ceiling on total government medical expenditures. The very existence of a ceiling denies and refutes the lofty pretension that a national health service will provide all the needed medical care.

The spending ceiling itself then generates an ugly conflict between the numerous branches of the health service. After all, there are 101 different aspects to medical care and 1,001 specialities that are deserving of the government dollar. And once again our politicians on the floor of the U.S. Congress, most of whom have no medical knowledge, must vote on priorities from eyeglasses to false teeth.

Politicians always follow the line of least resistance. They readily give in to medical demands that yield their results quickly and visibly and make a political splash. Inversely they discount and neglect slowly maturing results that are not quickly noticed and pay no political dividends. The pressures of immediate demand always conflict with the preparations for the remote future when the present politicians



may no longer be in office. Therefore, politicians rarely take a longer view, which in medical matters causes them to discount the importance of preventive medicine, the construction of new hospitals and medical schools, occupational health services, and medical research. Instead, they tend to opt for a free supply of drugs, of doctors' services, and of hospital care.

### **Deteriorating Service**

In a political medical care system, the hospitals tend to deteriorate and the number of hospital beds declines. The system suffers from the insufficient medical equipment, especially newly invented machines that revolutionize established procedures. In short, it suffers from all the rigidities and lethargies that characterize centralized political management.

But the worst consequence of such a system is the inevitable shortage of hospital beds, medical equipment, and doctors. This creates long waiting lists for medical care people want and need. In England the National Health Service has an average list of more than half a million people waiting for what NHS calls "noncritical surgery." Many people have to wait for years, or never receive medical help in time. British medical literature is full of horror stories about the consequences of such delays.

The doctors themselves are crushed by a huge burden of work. They have so many patients demanding free medical attention that there is only time and strength for minimal mechanical practice. Doctors see one hundred or more patients a day for a few minutes each, give cursory examinations, and hastily prescribe something that they hope will do no harm until the problem goes away. The patients complain about their careless treatment, and the doctors complain about the patients' attitude. The doctor is expected to be available to all, at any time and for any ailment, real or imagined.

Morale among physicians in a national health system tends to be very low. After all, no matter how they serve and labor, their remuneration is determined by budgetary considerations and political deliberations of fairness and adequacy. A given allocation of funds for remuneration must then be divided among the various groups of doctors in the national health service, the general practitioners, the specialists, the hospital staff from the senior surgeon to his junior assistants. With limited total funds, the health service administration must make most unpopular decisions of division between the various groups and its individual members.

Even if the administration does not use its remuneration power to

divide and conquer, which it may be tempted to do, it cannot avoid creating suspicion and discontent. The physicians, on the other hand, with this great economic power of the health service administration over them, have no choice but to organize and resort to collective force. In the end, the problems of medicine become largely political, the physician a politician who is lobbying for the economic interests of his group. In

Great Britain junior hospital doctors are frequently picketing their hospitals when they are not lobbying for political action.

A redistributive society that transfers income and wealth by political force is a conflict society. A national health service that allocates benefits and determines remuneration by political force not only is harmful to national health, but also breeds social conflict. ☩

### Government in Medicine

THE ADVOCATES of government in medicine point to our overcrowded hospitals as though they have in mind a solution for the problem. But the fact is that much overcrowding is traceable to increased voluntary insurance benefits, a situation that would only be aggravated if all beds were "free." The waiting lists for the hospitals of England and Germany are so long that many patients finally gain admittance only to have forgotten why they applied.

The hue and cry of overcrowded hospitals is a twisted statistic, for the beds are overburdened with people who are not really sick. The third party in the form of health insurance has entered the picture. But the present sad picture, with only part of our population voluntarily insured, would surely be magnified if health insurance coverage were made universal and compulsory.

Experience with socialized medicine shows hospitals so overcrowded that the situation becomes near impossible, doctors so overworked that their patients get less and less real treatment, the cost of drugs reaching astronomical figures, the total cost of the social system soaring, and the government calling for investigations.



# Making Sense Out of the World

OUR house guest was a handsome bachelor of around forty whom we had not seen since he was a teenage boy. As a very young man he had left high school and joined the army, where he served out an enlistment of several years. Returned to civilian life, he finished high school and went through college by means of the G. I. Bill's provisions. After that he got a good job with one of the government departments in a western state.

At the time he "dropped in" at our house he had been on that job perhaps fifteen years. He had never married, lived frugally, and saved up some money. Also, when his father died he found himself heir to

a substantial legacy. This, plus his savings, he had prudently put at interest. With no family obligations, he figured he could live on the income thus generated. So he had quit his job and come to Florida to "look around." And he had got in touch with us for what pointers we might give him about desirable places to live in our adopted state.

We soon discovered, however, that the phrase "looking around" meant much more to him than seeking a new location. He also wanted, as he expressed it, to "find himself." But that, likewise, was not all. He had set himself, we found, a still bigger task—namely, to "make sense out of the world." So he was not seeking a new job but expected, as nearly as I could make out, to settle into a career of philosophical speculation.

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What it all came down to, finally, was that this high school and university graduate, who was already at the threshold of middle age, looked upon himself as a kind of sociological lost sheep—a poor little lamb that had lost its way in a rather wicked world. Hence his desire to “find himself.”

### **A Conflict of Interests**

He seemed to feel, also, that there was some kind of conflict between having a job of any sort and also displaying a concerned interest in the political and economic fortunes of the human creature. But that, too, was not all. As I listened to what rapidly became a monologue he gradually let himself go, and I discerned that he seemed really unable to think beyond the familiar and time-worn cliches of the extreme and radical Left.

He thought just about everything in the United States was wrong and rotten. In stereotype terms he harped on the evils of poverty, the wickedness of Wall Street, the sins of Capitalism, the tragedy of slums, the barbarities of war—and so on . . . and on. During all this protracted denunciation of his own country, he revealed that he was an uncritical admirer of Lenin, Ho Chi Minh, Mao Tse-tung, and especially of Fidel Castro. His admiration of those characters was equalled only by the fervor of his detestation of the

American political and economic system.

“When a society like ours,” he pontificated, “gets too rich, then the people at the bottom of the economic caste system suffer because their jobs are so poorly paid they have less respect for themselves and their position in society. This doesn’t happen in countries where most of the people are all poor together. It happens in industrial countries where wealth and affluence are flaunted continuously in front of the less fortunate people.”

Later, with evident approval, he added: “Some people have claimed that if we got rid of competition, crime, and many jobs that wouldn’t be needed in a socialist economy, then every American could have the equivalent of a \$20,000 income. . . . If people couldn’t gain status by competing economically then everyone would be more free to compete with themselves, that is, by realizing more of their own potential as a person. I don’t think there would be much crime, mental illness, discontent, or tension in such a world. We have never really had freedom, because what people mean by this is to get away from being oppressed by others so that in their turn they can turn on some one else and live well by the sweat of his work. No one has ever really wanted to eliminate the economic caste system. They merely wanted to get off

the lower levels and then live better at the expense of those on the bottom."

(Lest you think I may have invented the rather turgid prose just quoted, I will explain here that it is taken from a letter he wrote a week or so after his visit in our home.)

On and on he went, in an endless and tiresome repetition of socialistic clichés and communist phrases. I put up with it for a whole day because he was our guest. But finally I had had enough, and told him bluntly that his sophomoric posturing was neither new nor original—that he was only repeating worn-out leftist clichés that I had read many years before, as a very young man, in various socialist journals that I perused avidly in those early days. He was merely echoing, I said, the tired old communistic jargon of the soap box agitator. At that he protested that he was not a communist, whereat I admonished him to stop talking like one, and advised him to season his politico-economic goulash with a dash of Adam Smith and a touch of Milton Friedman.

### **None Is Perfect**

In doing this I was careful to explain that I was not an uncritical apologist for an economic system that sometimes suffered abuses. To defend capitalism, I said, was not to condone the misconduct of some capitalists. American capitalism, I ad-

mitted, has its crooks and thieves and petty tyrants and insensitive gougers, the same as socialism in England and Sweden or communism in Russia and Yugoslavia. But we have abundant statutes and legal processes to guard society against crooks, whether of the Right or Left; and especially we ought not to make the mistake of judging an economic mechanism by the deportment of the relatively few who use it improperly or criminally.

So what? Why bother with all this? Did it have any importance? Should I be concerned because one person chose to denigrate his own country and glorify its enemies?

Yes, I think I should, because that man was not alone. I have no way of knowing what percentage of his generation think and talk as he did, but it is probably considerable, because many of his age group were exposed to the same sort of leftist collegiate influence; and there are indications that present academic attitudes are doing little to bolster the faith of American students in their country and its institutions.

Several years ago I participated in a program that booked me as a "college visitor." Under its arrangement I would spend two and sometimes three days on a campus, usually with a formal lecture before the student assembly, and with visits to various classes, and one or more question and answer sessions. In

those engagements I was amazed to discover the extent to which the same anti-business, pro-socialistic line was being followed, not by students alone, but by faculty members. I was not making pro-business talks. In my book, being a businessman does not confer any special degree of sanctity. My concern was with the principles of freedom; and I spoke for the freedom-from-too-much-government philosophy that is well-known to *Freeman* readers. Yet more than once I was accused, not only by radical students but by left-leaning faculty members as well, of being an apologist for "big business." Would I fare any better today? I doubt it.

The casual visitor whose sophomoric diatribes inspired the writing of these paragraphs has long since vanished from my life. He was a rather pleasant chap, decent in his personal life, charitable in his instincts and impulses. Some traumatic experience of his youth may have warped his judgment about economic and political reality. Certainly he was quite practical about conserving his own cash—and blissfully unaware, the while, that he himself was a capitalist! I suppose he was really just a casualty of his cliché-ridden generation—a victim of the unbalanced exposure to radical propaganda that was experienced by the average college student of the forties and fifties—a barrage

that was still in full thunder, as I have indicated, when I was a college visitor in the mid-sixties.

I note that a discouraging number of young people are still trying to "find themselves." Over and over again I am informed via television interviews and talk-show appearances that students are still working on the task of "putting it all together"—whatever that may mean. And as for "making sense out of the world," this appears to be a devout preoccupation of everybody under thirty!

### Thinking vs. Working

Some of these Seekers after Truth, like our visitor, seem to feel that there is a disharmony or antagonism between laudably enlarging their view of life and the ordinary business of holding down a job and making a living. But the two things are not necessarily at odds, or in any way mutually exclusive.

To be sure, there are people who spend their energies in amassing money to the exclusion of other values, but that is because they are simply that kind of people. At the opposite extreme, they would spend Saturday evening at the neighborhood saloon instead of attending a free concert in the park. Poverty can indeed place severe restrictions upon intellectual development, and the possession of money does confer decided advantages; but these

things are not conclusively determinant.

Of course when you attempt to "make sense out of the world" you set yourself a rather large task. The world has always been full of cruelty and selfishness and senselessness. It also exhibits amazing reservoirs of decency, devotion, dedication and human kindness. In larger view, its peoples have always swung from extreme to extreme in their efforts to devise governmental mechanisms under which to regulate their relations with one another.

Alternately this has led to such triumphs as the Athens of Pericles, and to such chaos as was to be found in central Europe prior to Charlemagne. It has contrasted the intellectual achievements of the so-called Saracenic culture with the backward state of Christendom during the same period. And today it presents the conflicting ideologies found in the representative democracies, the dictatorships of the right, those of the left, and the hodge-podge of petty tyrannies that exist in some of the "emergent" states.

In all this welter of ideological conflict and experimentation, it has

seemed to me that the best course for the individual is to make sense, so far as he can, out of his own life, rather than out of the billions of lives that make up "the world."

In this effort he will be wise to place major emphasis on his own mental and spiritual development. Since he can not live very richly in self-contemplation alone, he will relate himself to what goes on about him. But above all he will see independence and self-improvement, not just as political or social ideals, but as practical aspects of the business of successful living. I can see no reason why he can not do these things while filling even a routine job. The one thing is a matter of bread and butter. The other is a thing of the spirit. But there is no necessary conflict between them.

The main thing, I suppose, is to travel hopefully, as enjoined by Robert Louis Stevenson; to follow Thomas Carlyle in the realization that we move through mystery to mystery—but never to yield to his pessimistic conclusion that we proceed "from darkness and into darkness." ☉

IDEAS ON

**Ralph Waldo Emerson**

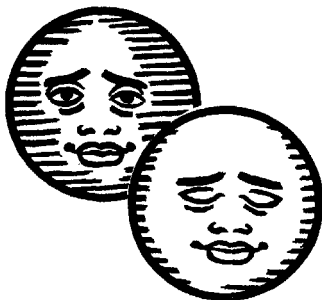


LIBERTY

EVERY great and commanding movement in the annals of the world is the triumph of enthusiasm. Nothing great was ever achieved without it.

Earl W. McMunn

# AWAKE or ASLEEP ?



OVER-REGULATION by government is crippling our agricultural system. But it doesn't stop there. Government meddling is a major threat to our entire productive economy. And a lot of people who should know better are asleep to the danger.

Land use, pesticides, air and water quality, energy, taxation and destruction of profit incentives: these are issues which will determine the destiny of agriculture and living standards for more than 200 million Americans.

The question is whether government promotes progress by robbing individuals of their right to choose. This right of free choice is being taken away by those who believe in an all-powerful government. They

do this in the name of "promoting the public welfare." And yet, history shows that individuals have always done best at solving social and economic problems when they have been free of government tyranny.

Think what has been accomplished to improve the lot of mankind just since the turn of this century! Our average life span has been increased more than 30 years. Sound of the human voice can be flashed to any point on earth in a fraction of a second. A person can cross our continent in less than four hours. Almost everyone can own a "horseless carriage." Many dread diseases have been conquered. We produce enough food for everyone—and more.

These are only a few of the wonders of our age. They were not products of government planning or intervention. Instead, they resulted from uninhibited, creative thinking by free individuals.

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Mr. McMunn was for many years editor of *The Ohio Farmer* and is now director of public relations for Robinson Hybrids, Inc., of Delaware, Ohio.

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So freedom to think, to plan, to choose, to dare, to win and to lose is the key to human progress. And this freedom to choose is the prize we are losing. It is a basic human right we may still support with lip service. But the truth is, we are letting it die of neglect. Some freedom of choice is lost every time a new item is added to the agenda of "free government service."

### Wrong Signals

It isn't just what government spends for us—even though this is bad enough. The real danger is in getting signals from the wrong source. And in accepting their misleading messages as gospel truth.

Producers who get their signals from the marketplace can usually rely upon the information they receive. Strong demand is a signal to supply more of the product. Weak demand is a sign to cut back.

It is different when government meddles. Signals between producers and consumers are garbled or deliberately distorted. Political considerations interfere with economic facts of life. The concern becomes: "What will Congress or the President decide?" Not: "What do the customers want?"

Substituting misleading political signals for information from the marketplace isn't new. It has been growing during recent years. But its basic weakness has been brought

into clearer focus by events of recent months.

Even liberal politicians appreciate the need for a sound private economy. Tax money is more plentiful and easier to collect when people are working at productive jobs. Politicians like to have fat chickens to pick.

But when business decisions are based upon political considerations, "confidence" becomes the watchword. "Can we believe what the President says?" Or "Can we trust lawmakers who mouth hatred for 'business ripoffs' while pushing for an ever-larger tax bite?" These are questions which influence the way the economy will perform. And they are far removed from that basic issue of what consumers want and how producers will be motivated to respond.

Our economy is performing in an erratic fashion and political meddling is a major reason. The economy grew at a rate of only 3.8 per cent during the third quarter of this year. The stock market was almost 20 per cent lower than it was the first of the year. And the dollar has been losing ground to almost every major currency in the world with the exception of the Canadian dollar.

As a candidate, President Carter said he would provide stable and predictable government policy. This is what business needs, but so far it

has failed to materialize. In fact, business leaders everywhere point to political meddling as a major reason for the sluggish economy.

This is critical, because business decisions on investment and production will determine the level of economic activity. And the Administration counts on economic growth to balance the budget, reduce unemployment and pay for a long and costly list of social programs.

### **Political Overkill**

The underlying fact is that politicians are trying too hard to run the economy. This applies alike to the President and to a majority of the lawmakers. Politicians who promise to cure every ill are likely to kill more patients than they cure.

And political aims are often conflicting or mutually self-defeating. One of the President's promises was a balanced budget. He also said he would reduce inflation, cut unemployment, raise the minimum wage, strengthen the power of labor unions, provide a nationwide system of public health care and expand a number of other social programs. Push one of these aims and you undermine something else.

The truth is we have cultivated unreal hopes about what government can do for us and have not taught people to count the cost. We are looking to government as the source of our prosperity when we

should be understanding that wealth is created by a productive private economy.

Charles B. Shuman, former president of the American Farm Bureau Federation, sums it up as well as anyone when he says: "The greatest threat to the future of our nation—to our freedom—is not foreign military aggression or internal communistic subversion but the growing dependence of the people on a paternalistic government. A nation is no stronger than its people and the best measure of their strength is how well they accept responsibility. There will never be a great society unless the materialism of the welfare state is replaced by individual initiative and responsibility."

Yes, too much political meddling is picking our productive economy to pieces. And we of the agribusiness community can interpret some of the damage in terms of meaning to all the people. Ban pesticides—and you lower food quality. Interfere with fertilizer supplies—and production suffers. Destroy profit incentives—and our food abundance fades away. Take away individual freedom—and we lose the driving force which made us the most favored people on the face of the earth.

Bureaucrats expand their power by promising more than they can deliver. They will continue to be oppressive and heavy-handed. But their failures explain the growing

disenchantment with government which shows up in one public opinion poll after another. Large numbers of people are already complaining about the stupidity and unfairness of government. These numbers will continue to grow. And the thirst for individual freedom is an ingrained force in human nature which cannot be permanently destroyed. This is the real hope for the future.

We have a great story to tell. Are we awake to the opportunity? This is the question. All of us have others we can influence. Decision-makers respond to aroused public opinion. And we will start to move away from the stifling hand of government intervention when enough people get fed up with the havoc it is creating. Don't lose heart. The time of that awakening may come sooner than you expect! ⊕

### Hope versus Fear

THERE is no escaping the fact that human effort is motivated by hope of reward on the one hand, and by fear of punishment on the other. The ideal combination is rewards that are great and reasonably attainable and punishments that are not too severe.

America's economic progress is the result of conditions which have provided maximum opportunities for reward, but which have limited the penalties to personal insecurity and business bankruptcy. At the other extreme is the totalitarian state, which promises security at the expense of freedom and which attempts to "encourage" initiative by the threat of the concentration camp or firing squad.

Under free competition based on personal responsibility and voluntary co-operation, our production of useful goods and services has exceeded anything ever before accomplished. True, we are far from perfect, and in some respects we seem to have been drifting backwards.

The big point is that our progress to date is the result of an entirely new and different form of political structure which made it possible for human energy and individual initiative to work under their own natural control.

IDEAS ON



LIBERTY

# Enemies of Society

THE HISTORY of the ancient world, says Paul Johnson in his masterly and provocative *Enemies of Society* (Atheneum Publishers, 122 E. 42nd St., New York, N.Y. 10017, 278 pages, \$9.95) is to a large extent a history of lost opportunities. The Greek and Roman civilizations trembled on the verge of significant take-offs, but, even as every other previous civilization since the original "Neolithic breakthrough," they lost momentum and fell back. Does it have to be that way always? Mr. Johnson, a former editor of the English weekly, *The New Statesman*, thinks not. But in his opinion it will take a reaffirmation of moral absolutes, including an additional "new and secular" Ten Commandments, to rescue the modern take-off (which began in seventeenth-century Britain) from the connivings of the groups which, for shorthand purposes, he calls the Fascist Left.

Mr. Johnson begins his book by doing his own Gibbon. But his ver-

sion of the famous "decline and fall" of Rome is more subtle than the earlier attempts at explanation. It was not the decline of Roman law that signaled the end of the empire, it was an over-proliferation of laws. The earlier Roman rule, he says, was not free in that it accepted the principle of "one man, one vote." It was "free in the more fundamental sense as understood by Thomas Hobbes, when he wrote: 'The freedom of the subject is the absence of laws.'" This is equivalent to saying that laws should be few, clear and simple.

When the laws are clear and the distinctions between what belongs to Caesar and what belongs to God are understood by everybody, energy is free to flow. The early Roman Republic was committed to a liberal economic process presided over by a "night-watchman state." The political power was exercised by elite minorities who saw no reason to interfere with freedom of move-

ment and of trade or with an accompanying freedom of communication, speech, occupation and religion.

### **Citizen or Slave**

The flaw in all this is that if you weren't a Roman citizen, you could be a slave. This was an inheritance from the Greek world. The more that territory changed hands as the legions marched and counter-marched, the more people were "plunged . . . into the servile cauldron." Dynamism was lost. With plenty of muscle power provided by the slaves, no need was perceived for technological experiment. When an inventor devised a new way of dragging marble to the Capitol, the Emperor Vespasian paid the man off but refused to make use of the idea. The poor, said Vespasian, must be allowed to earn a pittance.

The Romans developed a taste for small-scale but expensive luxury goods from the East. Exports could pay for the luxuries up to a point. But once the provinces had learned to make pottery and textiles and grow their own grain and grapes, the balance of trade swung heavily in favor of the East. Gold taken by the Romans from conquered peoples flowed to India, the "sink of the metals." It did not come back—recycling had not been discovered. So inflation accompanied the rise of the Caesars. The laws proliferated in the vain attempt to contain the

inflation. Taxation destroyed the middle classes. Under Diocletian there were only the upper classes, the *honestiores*, and the lower group, the *humiliores*, or "everyone else." Diocletian promulgated universal price-fixing "under penalty of death." It was unworkable. With populations falling and the cities deserted, the barbarians from outside the empire soon had an obviously superior culture.

### **The Dark Ages**

The Dark Ages were based on feudalism, but the feudal serf was not quite a slave. He sold part of his time to his lord for protection, which implied a contract. Northern Europe climbed out of darkness by its technological inventiveness. The collar-type harness and the selective breeding of larger horses enabled it to develop long-distance land transport. The iron stirrup came under the Carolingians, enabling the armored knight to manage himself and his horse as a unit. The heavy iron plow changed the whole landscape as new fields were brought into production. The Romans had never developed the geared watermill, but mills became a commonplace for making hemp, "fulling" cloth and running iron works in the years before the thirteenth century. Populations grew, only to fall into the "Malthusian trap" with the Black Death. But the plague

raised the price of labor, and the serfs took to the towns. A new class grew up to mediate between the *honestiores* and the *humiliores*.

The modern take-off took place in England partly because the British made the best possible use of resources in exporting surplus populations to America. The open world frontiers controverted Malthus. But it was the superior British law of property, which gave certainty to the enterpriser, that really encouraged the inventiveness that put the industrial revolution into high gear.

Mr. Johnson calls liberal capitalism the "permanent miracle." But then he hedges. To keep the "permanent miracle" going, he says, we must deal with a "syndrome of symptoms" which take the form of "ecological eschatology." Eschatology is the doctrine of "last things."

The Four Last Things, according to the ecological eschatologists, are to be the poisoning of the air, the exhaustion of the soil, the final consumption of our planet's resources, and eventual mass starvation.

### **A Self-Cleansing Universe**

Mr. Johnson believes this is all nonsense. He can cite chapter and verse. The universe is a "self-cleansing mechanism." Man can do violence to his environment, but an average-size hurricane releases the energy of 100,000 H-bombs. We have survived thousands of hur-

ricanes. The ten million tons of man-made pollutants in the atmosphere must be set against the 1,600 million tons of methane gas emitted by natural swamps every year. Carbon monoxide is produced by cars, but in insignificant amounts when compared to the carbon monoxide produced by nature.

The madness of the doom-sayers is compounded by people who misuse the language and by professors who engage in their own form of academic Newspeak. The Marxists make use of the confusion to promote their own ends. And the theorists of "modern black racism," such as Franz Fanon, preach doomsday "for whites only" in their campaign to substitute the exploited blacks for the white Marxist working class as the true proletariat.

To save the situation Mr. Johnson calls on the "bourgeoisie" to reassert its own values. Among the "ten secular" commandments that must be added to Mosaic law is the "moral axiom" that democracy is the "least evil" form of government. Laws must guarantee property. And words must be used accurately and in good faith.

Mr. Johnson has, of course, declared war on most of our intellectual classes. But the truth is on his side, and his enemies—Marx, Freud, Marcuse, Fanon, the Club of Rome, and so forth—will surely not prevail.

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**THIS NATION SHALL ENDURE**

by Ezra Taft Benson

 (Deseret Book Company, P.O. Box 659,  
Salt Lake City, Utah 84110, 1977)

 152 pages ■ \$4.95
 

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*Reviewed by Melvin D. Barger*

ALTHOUGH obviously written for the membership of The Church of Latter-day Saints, *This Nation Shall Endure* is a reassuring book for Americans of other faiths. It carries some disturbing commentary about the erosion of values that has been robbing us of vitality and purpose. At the same time, however, it expresses complete confidence that we will eventually rediscover this nation's spiritual foundations. The book is a powerful statement of Mr. Benson's religious convictions, and it also reflects his patriotism and his beliefs in the free market, private property, and limited government.

Ezra Taft Benson attained national prominence as U.S. Secretary of Agriculture during the Eisenhower Administration, and more recently he became President of the Council of Twelve, the ranking apostle of his Church. A descendant of one of the original Mormon pioneers who made the historic trek to the Salt Lake Valley with Brigham Young in 1847, Mr. Benson has had a distinguished career as an educator and as a prime mover

in farm organizations. He speaks as one who has deep roots in the Mormon traditions and long experience with the economic concerns of Western farmers and ranchers. He also espouses the individualism and self-reliance of farm-bred Americans without endorsing the populist contradictions that have transformed many farmers into Federal dependents.

In Mr. Benson's view, the United States didn't just happen and the successful bid for Independence was not, as some argue, only the result of good fortune, help from the French, and ineptitude by the British generals. No, this nation was directly created by God, and has been blessed above all nations in accordance with Biblical promises. The Declaration of Independence is a "spiritual manifesto, declaring not for this nation alone, but for all nations, the source of man's rights." As for the U.S. Constitution, it is workable only with a righteous people, and Mr. Benson quotes this statement from the first John Adams: "Our constitution was made only for a moral and religious people. It is wholly inadequate to the government of any other."

To anybody who is familiar with the early persecution of the Mormons and the tragic deaths of Joseph Smith and his brother by mob violence in 1844, it is indeed ironic that Mormon leaders such as

Mr. Benson are today the most patriotic of Americans. The great Mormon migration to Utah in the late 1840s was actually a flight to another country, and for years afterwards there were real differences and even armed conflict between the Mormons and the Federal government. Mr. Benson does not touch on these problems, but he does offer a stirring defense of American freedom and democracy.

Mr. Benson argues that the current threats to American freedom come from the external menace of the Soviet Union and internal moral decay. If anything, the latter is the more serious problem, because a morally decadent people lack both the will and the strength to resist a powerful foreign aggressor: "America's foundation is spiritual. Without the moral base to our system, we are no better off than other nations that are now sunk into oblivion. If we are to remain under heaven's benign protection and care, we must return to those principles which have brought us our peace, liberty, and prosperity. . . . Our problems today are essentially problems of the spirit."

Will we make that necessary return to faith? Mr. Benson believes

that we will and he ends on an optimistic note, quoting abundantly from Mormon writings and Biblical prophecies. He views restoration of faith as an essential part of the Divine plan, and he terms the United States the Lord's base of operations in these last days. "This nation will endure," he states. "It may cost blood, but it is God-ordained for a glorious purpose. We must never forget that the gospel message we bear to the world is to go forth to the world from this nation, and that gospel message can prosper only in an atmosphere of freedom. We must maintain and strengthen our freedom in this blessed land."

For non-Mormon readers with strong Christian beliefs, Mr. Benson's book seems conciliatory and gracious toward other religions. For religious skeptics who still follow libertarian principles, the book is a helpful guide to the political and social views of the Church's current leader. For anybody who is concerned about this country's future, Mr. Benson's book is a welcome change from the religious doomsday literature that has been flooding the market. This nation does deserve to endure, despite its many faults and sins. ⊕



# the Freeman

VOL. 28, NO. 4 • APRIL 1978

- Guilt, Responsibility and Western Prosperity** Charles Dykes 195  
A rising standard of living hinges on the elevation of spiritual, moral and educational standards.
- The Hidden Costs of Free Lunches** Gary North 200  
Free lunches, if legislated, are devastatingly expensive to the recipients.
- Living Together** Roger Donway 204  
Concerning the bonds of sociability underlying the concept of *laissez faire*.
- The Farm Strike—**  
**Will It Do More Harm than Good?** Leland P. Cade 211  
Is a cost-price squeeze sufficient reason to repeal the law of supply and demand?
- Levels of Discussion** Hans F. Sennholz 215  
All ideas must be submitted to the test of free discussion which is a reliable friend of truth.
- Is the Free Market Ethical?** Fred E. Foldvary 220  
A market free of coercion is on firm moral ground.
- World in the Grip of an Idea**  
**16. Sweden: The Paternal State** Clarence B. Carson 223  
The curious notion of the paternal state could hardly have come from a careful study of history.
- What Price Control Really Means** Lawrence W. Reed 235  
The history of price control is the history of shortages, queues, and dissatisfied customers.
- Constitutional Restraints on Power** Edmund A. Opitz 239  
Government is the power structure that free men are obliged to restrain.
- Book Reviews:** 244  
"Beyond Failure: How to Cure a Neurotic Society" by Frank Goble  
"A Critique of Interventionism" by Ludwig von Mises  
"Notes and Recollections" by Ludwig von Mises  
"On the Manipulation of Money and Credit" by Ludwig von Mises  
"It's No Sin To Be Rich: A Defense of Capitalism" by William Davis  
"The People Shapers" by Vance Packard

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Charles Dykes

# Guilt, Responsibility and Western Prosperity

ONE of the great differences between ancient paganism and early Christianity was in their varying concepts of responsibility. Responsibility has generally been defined as "the human sense of answerableness for all acts of thought and conduct."<sup>1</sup> The pagan, however, located responsibility primarily in his environment—e.g., fate, the stars, the gods, and the like, whereas Christian faith insisted on individual moral responsibility. Orthodox Christianity was not then nor is it now "concerned with the pointless questions about heredity, environment, the stars, or any other like search for a cause." Rather the Christians perceived that "the pagan search for causes is a denial of the person and also of responsibility."<sup>2</sup>

Ours is a time when the pagan

and Christian concepts of responsibility are often curiously mixed in the same minds, resulting in a strange new doctrine wherein some men are considered to be the helpless victims of environmental determinism, while others are declared to have a free will, albeit an evil one.

In his analysis of egalitarianism, P. T. Bauer provides an example of this kind of thinking: "The poor are often envisaged as a distinct class at the mercy of the environment, with no will of their own, while at the same time they are denied the primary human characteristic of responsibility. The rich are regarded as having a will of their own, but as being villainous. Poverty is seen as a *condition* caused by external forces, while prosperity, is viewed as the result of *conduct*, although reprehensible conduct. The poor are considered passive but virtuous, the rich as active but wicked."<sup>3</sup>

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Mr. Dykes is a businessman, free-lance writer and enthusiastic advocate of the free market.

Thus in contemporary egalitarian demonology, the "rich" and their machinations have become the "stars," "fate," or other "causes" which afflict the "poor."

### Search for Scapegoats

This abiding human passion to transfer responsibility for one's own sin and failure to someone or something else can be illustrated by innumerable examples. Some years ago, G. K. Chesterton wrote of his encounter with anti-Christian books in days prior to his conversion. He noted that Christianity "was attacked on all sides and for all contradictory reasons. . . ." He continues, "I was much moved by the eloquent attack on Christianity as a thing of inhuman gloom. . . . They did prove to me in Chapter I. (to my complete satisfaction) that Christianity was too pessimistic; and then, in Chapter II., they began to prove to me that it was a great deal too optimistic."

He was impressed by the argument that Christianity was weak, timid and cowardly with regard to fighting, then turned the page and "found that I was to hate Christianity not for fighting too little, but for fighting too much. Christianity, it seemed, was the mother of wars" and "had deluged the world with blood. . . . The Quakers (we were told) were the only characteristic Christians; and yet the massacres of

Cromwell and Alva were characteristic Christian crimes."<sup>4</sup>

A few years later Ludwig von Mises was moved to say that "Nothing is more unpopular today than the free market economy, i.e., capitalism. Everything that is considered unsatisfactory in present day conditions is charged to capitalism. The atheists make capitalism responsible for the survival of Christianity. But the papal encyclicals blame capitalism for the spread of irreligion and the sins of our contemporaries, and the Protestant churches and sects are no less vigorous in their indictment of capitalist greed. Friends of peace consider our wars as an offshoot of capitalist imperialism. But the adamant nationalist warmongers of Germany and Italy indicted capitalism for its 'bourgeois' pacifism. . . . Sermonizers accuse capitalism of disrupting the family and fostering licentiousness. But the 'progressives' blame capitalism for the preservation of allegedly outdated rules of sexual restraint."<sup>5</sup>

Thus Christianity and capitalism have often been the "scapegoats" on which the sins and shortcomings of many have been laid. More recently, the wealth of Western nations—a product of Christian capitalism—has been attributed to "neocolonialism," the indictment put forward by socialists of all stripes that the nations of the Western

world (the "haves") derive a large and essential part of their affluence from exploitative investments in the underdeveloped nations (the "have-nots").

President Julius Nyerere of Tanzania put it this way: "I am saying it is not right that the vast majority of the world's people should be forced into the position of beggars. . . . In one world, as in one state, when I am rich because you are poor, and I am poor because you are rich, the transfer of wealth from the rich to the poor is a matter of right; it is not an appropriate matter for charity. . . ."6 Here we have not only the accusation that the rich nations are responsible for the poverty of the poor nations, but also the claim that the rich have a moral responsibility to redistribute their ill-gotten gain to the masses of undifferentiated poor.

### Accusations of the West

Like the critics of Christianity and capitalism, the Third-World apologists really get carried away. According to Dr. Lewis H. Gann, "the hated American plotters, like the Elders of Zion in the Nazi polemics of old, can do no right. If they invest overseas, they exploit foreigners. If they do not invest abroad, they are guilty of boycotting other countries. . . . If capitalists earn profits, they impoverish the masses. If they do not earn profits, they prove that capitalism must be

decadent. If American entrepreneurs try to preserve indigenous customs in the Third World, they promote 'dysfunctional' forms of tribalism. If they disrupt indigenous customs, they are guilty of cultural genocide. The list can be extended indefinitely."<sup>7</sup> Dr. Gann concludes: "The real or assumed machinations of foreign capitalists supply a universal excuse for the political and economic failures of the Third World."<sup>8</sup>

Accusations that the West in general, and capitalism in particular, has caused the poverty, hunger and backwardness of the Third World, are totally without foundation. There are able studies which set forth the truth,<sup>9</sup> but the urge to masochism remains strong, especially among Western intellectuals and churchmen.

P. T. Bauer and B. S. Yamey cite a leaflet put out by a student organization in Cambridge, England: "Almost all of us in this country belong to the small minority of those who made it to prosperity. But we climbed on the shoulders of the rest—the ones we left behind—abandoned to disease, poverty, and unemployment. We took the rubber from Malaya, the tea from India, raw materials from all over the world, and gave almost nothing in return." The truth, according to Bauer and Yamey, is that "Western governments and enterprise

brought rubber to Malaya and tea to India which were not indigenous to these countries."<sup>10</sup>

### Why the Difference?

Given the obvious economic supremacy of the West vis-a-vis the rest of the world, and given the equally valid, if not so obvious, fact that this supremacy has not been achieved at the expense of the rest of the world, why is the West—and especially America—prosperous, while the remaining two-thirds of mankind are part of the world's hungry billions? We cannot give a detailed explanation here, but can indicate several conditions that were essential in preparing the way for the affluence we now enjoy.

First, one need not be a believer to notice that the poor nations are those where Christianity has had little influence or has not taken strong root. On the other hand, the rich nations, those where agricultural surpluses are a chronic problem, are those where the dominant formative values have been Christian—and in particular, Protestant Christian. Cattle and monkeys thrive in India because they are considered sacred; no Hindu would kill a cow because he is afraid of offending his god, nor are cattle and monkeys usually driven away from crops, even when they are consuming food desperately needed by the starving. Here we see

false religion leading directly to bad farming.

Second, the Reformation gave to Europe a new understanding of using and enjoying the material world. The older asceticism was essentially rejected and a new work-ethic emerged which provided the dynamic for the economic explosion that was to follow over the next four centuries. Third, the Puritans assisted mightily in the development of modern science and encouraged men to master their material environment.<sup>11</sup> (It is not well known, but of 68 men on the original list of the Royal Society for whom information on their religious orientation is available, 42 were Puritans.)<sup>12</sup> They were instrumental in bringing the Scientific Revolution, which provided the theoretical and technical foundation for the Industrial Revolution.<sup>13</sup> We should, moreover, not forget the influence of Puritanism on education. Universal education is an inheritance directly traceable back to the Reformers, and their heirs, the Puritans.<sup>14</sup>

And finally, as Irving Kristol has reminded us, "the Founding Fathers *intended* this nation to be capitalist and regarded it as the *only* set of economic arrangements consistent with the liberal democracy they had established."<sup>15</sup>

The above represents, of course, only some of the more important historical antecedents making for

Western prosperity. In relating this back to present conditions in the Third World, are we not justified in believing that if they are ever to appreciably raise their material standard of living, they must first raise their spiritual, moral, and educational standards. Only by achieving a society committed to individual responsibility and moral accountability for both persons and institutions will they approach the material well-being of the West.

Is it any surprise that the developed nations not only have the most productive economies but that their citizens enjoy the greatest degree of freedom? As Friedrich von Hayek has stated: "What strikes one above all is the general achievement . . . of practically all developing countries which have embarked on the road of consistent market economy to pull themselves out of the mire of poverty. What also strikes one is the hopelessness of those who have tried the road of socialist methods."<sup>16</sup> ⊕

### —FOOTNOTES—

<sup>1</sup>David Fyffe, "Responsibility," in James Hastings, editor: *Encyclopedia of Religion and Ethics*, Vol. 10, p. 739. Scribners, 1908-1922.

<sup>2</sup>R. J. Rushdoony, *Revolt Against Maturity*, p. 89, Fairfax, Va.: Thoburn Press, 1977.

<sup>3</sup>Irving Kristol & Peter T. Bauer, *Two Essays on Income Distribution and the Open Society*, pp. 17, 18. Los Angeles: International Institute for Economic Research, 1977.

<sup>4</sup>G. K. Chesterton, *Orthodoxy*, pp. 84, 85, 87. Garden City: Image Books, 1959.

<sup>5</sup>Ludwig von Mises, *Planned Chaos*, p. 17, Irvington, N.Y.: FEE, reprinted 1972.

<sup>6</sup>Julius Nyerere, *African Affairs*, pp. 242-50. April 1976, quoted in P. T. Bauer & B. S. Yamey, *Commentary*, "Against the New Economic Order," p. 27. April 1976.

<sup>7</sup>Lewis H. Gann, *Neo-Colonialism, Imperialism, and the 'New Class'*, p. 10. Menlo Park, Ca.: Institute for Humane Studies, Inc., 1975.

<sup>8</sup>*Ibid.*, pp. 4, 5.

<sup>9</sup>See P. T. Bauer, *Dissent on Development*, Cambridge: Harvard University Press, 1972.

<sup>10</sup>P. T. Bauer & B. S. Yamey, *Commentary*, "Against the New Economic Order," p. 27, April 1976.

<sup>11</sup>See R. Hooykaas, *Religion & the Rise of Modern Science*, pp. 135-149, Grand Rapids: Eerdmans, 1961. Also Christopher Hill, *The Century of Revolution*, pp. 92-4, 179-81, New York: W. W. Norton, 1961.

<sup>12</sup>R. K. Merton, *Social Theory and Social Structure*, p. 584 ff., New York: The Free Press, 1967.

<sup>13</sup>Kurt Mendelssohn, *The Secret of Western Domination*, New York: Praeger, 1976.

<sup>14</sup>See Hans J. Hillerbrand, *The World of the Reformation*, p. 212 f., New York: Scribners, 1973. Also Harold J. Grimm, *The Reformation Era: 1500-1650*, p. 592 f., New York: Macmillan, 1954.

<sup>15</sup>Irving Kristol, *The Public Interest*, "On Corporate Capitalism in America," number 41, Fall 1975, p. 124.

<sup>16</sup>Quoted on the editorial page of the *Wall Street Journal*, 6 January 1976.

Gary North

# THE HIDDEN COSTS OF FREE LUNCHES



*"A distinguished economist . . . offers us the verity that there is no free lunch—to which I, a non-economist, reply: But of course there is! If you have too much provision and I not enough, then when you yield a little, I may indeed have a free lunch."*

—Irving Howe, *New York Times*,  
Nov. 27, 1976, p. 23.

\* \* \*

This seems like such a clever response to the most universally agreed-upon principle of economics, namely, the doctrine of scarce resources. After all, if the person with "too much provision" does yield some or all of his lunch to the other individual, the lunch is free of charge to the recipient, isn't it? He has had to give up nothing in return, right?

Wrong.

Let us consider the case of a charitable donation. The person who has had access to a lunch earned by his own labors or capital may be willing to share part of it with someone else. The recipient may prefer to think of his share of the lunch as something that was worthless to the sharing benefactor. In short, that he really had "too much provision," so the extra portion was really free.

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But the decision concerning whether or not the donor had too much food had to be made by the donor. He alone could determine his appetite, not the recipient. It is possible that the donor would have thrown the food away anyway. Instead, he gave it to someone in need. At the time of the gift, the donor may have regarded the extra portion as a free good—something of no earthly benefit to him, the donor.

The donor paid for the lunch. It was not free of charge to him. Next time he may decide to order a smaller portion and pay less for his lunch. He may decide even to skip a meal, if the first one has drained his resources. As the economic actor, he may have regarded the extra food as a free good in his value scale, so he was willing to give it away. But men have an incentive to reduce their purchases of goods and services that they think will prove excess to their needs. To avoid waste, they conserve resources. This means that the supply of free lunches will always be limited. Rare is the case of a truly free lunch, meaning a lunch that has zero value to the owner. Such lunches involve prior waste, and the market pressures all participants to reduce waste by making better predictions about their need for a particular resource in the future, including the immediate future. We tell children not to take more food than they can eat. "Your eyes are

bigger than your stomach," we say. When children start paying for their own meals, their eyes get smaller.

Even a zero-value (to the owner) lunch involves cost. Ownership always involves responsibility for the use of any resource. If a man has an extra lunch in front of him, he has to make a decision. Should he throw it away? Should he offer it to the highest bidder? Only if there are no bidders at any price, is the lunch truly of no value to the owner. Should he give it away? To whom should he give it away? Who is most deserving? *There is no such thing as zero-responsibility ownership*, whatever the costs of lunches may be.

The recipient of charity then faces a choice. Should he say thank you to the donor? Should he thereby acknowledge his status as a beneficiary of another man's wealth, even if the form of that wealth was useless to the donor? Should the recipient be grateful? Should he be resentful at the other man's wealth? He has placed himself in a position of subordination. There are many people who resent their position as beneficiaries. Jealousy (wanting another man's goods) and envy (wanting no one to have such goods) spring up in the hearts of recipients. They find themselves eaten up spiritually by either or both of these two forms of resentment. They find, in short, that the lunch was not free. They had to give up something in

order to get it: pride, self-confidence, a feeling of independence, or peace of mind (in the case of the resentful).

### Coercive Redistribution

The idea that the person who has "too much provision" ought to be forced to "yield" the excess portion transforms the whole idea of the hypothetical free lunch. A legal obligation, like the signs that say "yield to pedestrians," has been created. But we are all pedestrians from time to time, and we all pay the taxes to operate the streets, so we do not pass class-conflict legislation when we propose street safety signs. In the case of free lunches, we act in terms of a philosophy of economic class and class antagonism.

The person who wants the free lunch arbitrarily asserts that the lunch is unnecessary to the owner. He then uses political force to confiscate the lunch, either for himself, or for those who can benefit him (e.g., voters), or for those who will esteem him highly for being so generous with somebody else's resources. He receives some sort of benefit from the act of confiscation.

Was the lunch really free? Certainly, it was not free for the original owner. Even if he really regarded it as a zero-value resource, he probably does not regard his *right* to do what he wants to with his resource as something of zero value. The act of confiscation infringes on

the right of ownership—if nothing else, with his right to give away the lunch to that person whom he regards as most deserving. But the argument does not concern itself with the costs borne by the original owner. It is aimed at the hypothetical zero-cost lunch in the life of the recipient.

What has he really given up? First, and most important, he has given up his personal commitment to an ideal, namely, the right of each person to the fruits of his labor. Second, he has given up a portion of his own future. If he should somehow become a person with an earned lunch of his own, he will not be so certain of the protection which the law will provide him when he wants to make decisions concerning the use of his lunch. He has compromised his own confidence in the law of property protection. Third, he has guaranteed the reduction of supply in the lunch market of the future.

Those who have earned lunches for themselves will not be equally happy to continue to produce the resources necessary to buy lunches and then see them confiscated. The modern interventionist may have faith that the lunch producers and lunch buyers of the world will go on forever, like the goose that laid the famous golden eggs. "If we just refrain from cutting the goose's neck, we can get free golden eggs forever," they argue. The trouble with such

logic is that other, less rational, more greedy people will not listen to words of restraint once the egg confiscation philosophy has taken hold of a voting population, and even if everyone were to show restraint, golden egg-laying geese are not immortal. Those who rely on the confiscated productivity of others make themselves dependent on the future supply of free lunches. They have gained free lunches at the cost of self-reliance.

Self-esteem is not a zero-value resource. It is not talked about in the textbooks advocating free lunches, or partially subsidized lunches, or attacking class-exploiting lunch production methods. Nevertheless, the talk of "welfare rights," and the shouts of "legal obligation," and the sophisticated speculations concerning "entitlement" cannot successfully evade the effects of the loss of self-esteem inherent in any system of free-lunch politics. The recipients are like those little boys who have their big brothers beat up other little boys to take away their snack money. The older brother always wants payment in one way or the other, and the little brother has difficulty in working up a sense of pride in what he has accomplished. Then, too, the other little boys may have big brothers—*much* bigger brothers. Self-esteem is exchanged

for a free lunch and a lot of fear concerning the future.

### The Bottom Line

What has happened to our hypothetical free lunch? It has cost the recipient self-confidence, as well as his confidence in legal institutions. It has cost him his self-esteem. It has made him partially dependent on those who produce lunches, for they have less incentive to produce lunches in quantities sufficient for all those who want to be recipients of free lunches. The politics of free lunches unleashes the forces of jealousy and envy, showing people that both evils can be put into law with impunity.

Free lunches, if legislated, are devastatingly expensive to the recipients. If you think otherwise, try to find thankful beneficiaries of the United States' foreign aid programs. The lack of gratitude should be expected; we have promised men free lunches, and we have extracted a terrible price. Why should we expect applause from those who have become dependent on us as never before? The price of self-esteem has been discounted far too much by the advocates and administrators of the politics of free lunches. The recipients have made more accurate estimates of the costs of legislated free lunches. Ⓢ



# LIVING TOGETHER

Is laissez-faire an unsociable system? Indifferent to cooperation? Hostile to fellow-feeling? From the abuse laissez-faire receives, one would certainly suppose it was all these things.

Indeed, one might suppose laissez-faire to be something of an ultimate in unsociability. I have seen it asserted, as an obvious truth, that under laissez-faire the majority of people would be reduced to a sub-human level—as though freedom were a type of anti-personnel weapon.

And that was from a Centrist's point of view. Further Left, they take off the gloves. One popular radical economist speaks unhesitatingly of the "ruthless amorality of laissez-faire," and insinuates that

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Mr. Donway deals as a free-lance student and writer with the social implications of certain philosophical issues.

even a moderate capitalist must number Al Capone among his heroes.

Really, it is an extraordinary state of affairs. The system whose very name proclaims a policy of "hands off" is attacked as a system whose hand is against every man.

Yet the idea of laissez-faire seems simple enough to be understood even by those who disagree with it. Essentially, there is only one operative principle to be grasped: laissez-faire forbids aggressive coercion between people. That is almost all there is to it.

It is just the consistency with which laissez-faire applies this prohibition that distinguishes it from other systems of civil order. The use of force, other than defensively, is forbidden under laissez-faire to *all* citizens, including public servants.

The result of practicing such con-

sistency some call "liberty," and some call "freedom." Kenneth Boulding has suggested we should call it "peace," because the ban on coercion is similar to international nonaggression.

### Liberty Is Peaceful

That may be a bad idea, because of the differences between liberty and international nonaggression. But the suggestion does express this one root truth: that liberty is peaceful. It functions by guaranteeing safety from constraint.

Now why would anyone consider that unsociable? What connection is there between forswearing harm and forswearing humanity? Not to shanghai one's neighbor, not to ravage his land, not to expropriate his property may be less than the last word in fraternity, but it is a start. And in motive, it is more than a start.

If there is any hostility to community, surely, it lies with those who reject the principle of *laissez-faire*. Their refusal to accept an armistice is somehow unsettling.

When a moderate speaks in favor of this freedom or that, he is certain to say, "Of course, I'm not advocating *laissez-faire*," and he means to be reassuring. But where is the reassurance? If his auditors took him seriously, I should think, they would leap from their seats and rush the exits. For he has said, in effect,

that he accepts no standing rule about dealing peaceably with peaceable citizens. Not knowing his rules for dealing violently with peaceable citizens, his listeners should hardly feel safe in his presence. Perhaps he is inclined to reject *laissez-faire* when he spots a pocket of poverty in his trousers.

Obviously, things do not work like that. Yet they do almost work in reverse. People really do shrink from an advocacy of *laissez-faire* as though it were an advocacy of barbarism. They actually hear, in a call for freedom, a cry for havoc. How has so mad a reversal been accepted?

The charge against liberty cannot be like the straightforward charge against a coercive state—that it pushes people around. That much, at least, the explicit ban on coercion spares us. Yet somehow the impression is being given that liberty *does*, virtually, mean being pushed around, and much worse besides.

Garry Wills, for instance, calls *laissez-faire* "the law of the jungle," and it is a common enough description. But it is also a curious description—of *laissez-faire*, to say nothing of jungles. For if *laissez-faire* is the jungle's law, it is a jungle where the overriding rule is "Thou shalt not use force," and where violence is the forbidden means of survival. It is a jungle where the lamb can lie down with the lion.

Surely, that is unpromising ground for the enemies of freedom. From such politics, not even the most resourceful could construct a feral image for liberty.

### **How Will Free People Behave?**

In consequence, the attack on "antisocial" freedom generally begins with the nonpolitical side of a free society. It starts with a hypothesis about how free people will use their freedom in their everyday lives.

The hypothesis is usually a wild one, as it happens, made without reference to the historical behavior or actual attitudes of free people. But nevertheless, the hypothesis, or guess, is made.

And how will free people behave? The guess is: Not well. The accusation of "jungle law" implies that free people will deal with one another as warily and as meanly and as uncooperatively as they can. It suggests they will be as vicious as the law allows, and perhaps a little more.

A citizen living under freedom is expected to suffer all the noncoercive evil his fellow citizens can inflict on him, and to enjoy as few of the benefits of cooperation as they can arrange. The majority of people will be reduced to a subhuman level, and so forth, and so on.

The obvious question is: Why should free people behave like this? And the typical answer is clear. Ac-

ording to those who make the charge, there is an attitude that gives rise to freedom, and this attitude is at bottom antisocial.

More specifically, the ethos behind liberty is said to take life as a competition for survival, and winning that competition as the highest value. From this, the internecine fray is inferred.

That is the slander, and apparently it is effective. How it can be effective, though, is something of a mystery. The odds against the slander's even surviving, I should think, are overwhelming.

After all, the ethos of liberty that actually gave rise to liberty has not been lost in oblivion. The conception of a free community that actually gave us free communities can still be learned. One would imagine that documents recording these things might, on any day, give the lie to accusations about freedom's unsociability.

### **Shared Reason and Goodwill**

To take a simple example: the Declaration of Independence does not begin with a premise of battle royal. It begins with a decent respect to the opinions of mankind as its self-proclaimed motive; which is to say, it begins with an assumption of shared reason and goodwill.

The writings of John Locke, too, are not antisocial. They do not assume that people will be at each

other's throats. As a matter of fact, they assume that free people will generally associate in "Peace, Good Will, Mutual Assistance, and Preservation."

That the charge of unsociable liberty has survived in the face of this history is a wonder, but that it has survived the scrutiny of common sense is a marvel. For the allegation of "feral freedom" is unbelievable on its face.

The first part of the charge, remember, says that free men consider themselves to be engaged in a war of all against all. And the second part says that, consequently, they place a total ban on coercion. Why would people fighting a life-or-death struggle do that? Why would they enforce greater decorum than prevails at the average sporting event? Just psychologically, it is not a plausible sequence of action. Yet no one seems to notice.

I think we should ask why no one notices. The allegation is a smear, undoubtedly. But if it were a smear only, the smear would have been exposed long ago. The charge is so outlandish that it could not survive without help, and especially without inside help from its victims. Unfortunately, such help is easy to find.

To begin with, a notion of universal competition *was* once adduced in behalf of freedom, by the Social Darwinists of the late nineteenth century. It can be said that their

idea of competition was very different from the savagery depicted by the enemies of freedom. It can be said that the Social Darwinists were not the true heirs, philosophically, of those who authored our freedom. Nevertheless, they did tie freedom to universal competition, even as charged.

And perhaps that tie is still made, here and there. A few apologists for sharp practice, I suppose, still use the phrase "competition for survival" as a dodge and an excuse.

But if these are things that cannot be changed, they are at worst minor difficulties. They are the kind of aid that can be dragged up in support of any straw man.

A second type of aid is much more dangerous, and it is also given to the enemies of freedom. Probably, it is the most dangerous sort of aid that can be given to one's detractors, for according to an old rubric it actually implies consent. This aid, of course, is silence.

### **A Weak Defense**

Defenders of liberty have simply not avowed some of the things that go with freedom, like sociability, cooperation, and goodwill. It is a common habit among defenders of freedom merely to recommend the prohibitions against coercion without mentioning what sort of society those prohibitions govern.

By way of example, that was

exactly the approach used above here to recommend *laissez-faire*.

What can a listener make of such a presentation? How can he weigh a political ethic that says nothing about the tenor of its proposed society? Will his fellow citizens, in this proposed society, treat him as an ally, or as an enemy, or will they treat him with total indifference? It is a matter of legitimate curiosity.

But commonly, a person who is asked to accept freedom cannot tell in the least what sort of existence he is being asked to accept. Is he being asked to join with peaceful producers, or harmless nomads, or pacified flower children? If you are going to live with people, the differences are important. The "look" of a free society, surely, must be part of the argument for a free society.

If it is not, if such details are not filled in, the enemies of freedom will fill them in for us. In what manner, we have seen.

Before discussing the free society's "look," however, an objection to any such discussion must be noted. It is a simple and worthy objection. A free society, after all, is a tolerant society. It does not prescribe its citizens' peaceful behavior. How then can we depict any general patterns of such behavior?

Evidently, the answer must lie in the context of freedom. We should know, for we have only too much occasion to see, that liberty does not

grow anywhere, anyhow, under any conditions. It has emerged, when it has emerged, from a fairly definite attitude toward man and society. It has been rooted in an outlook, and it has waned with the waning of that outlook.

### Attitudes and Beliefs

The enemies of freedom are right in this regard, and they have grasped what few defenders of *laissez-faire* have grasped. There is an ethos that gives rise to liberty, and it *does* tell us something about free people. By noting the attitudes and beliefs that generate freedom, we can know something about the attitudes and actions of free people in their everyday lives.

The question is, therefore: what outlook gives rise to liberty, and what does it tell us? How does it suggest free people will behave? Specifically, can we say with any confidence how free people will view one another, and what use they will make of their fellows?

Obviously, I think we can.

A few general facts about man and society, variously expressed at various times, have been the groundwork of freedom. To put it simply, we might say that freedom is based on three commonplace beliefs.

The first of these holds that human life is at bottom individual. To live—to discover what man needs



and produce it—is something done by a person. It is a problem for the mind, and the mind is individual.

The point must be stated carefully, for it is easily misrepresented. Few of us could live outside society, and fewer of us would want to try. But the reason why is important. It is not, as some collectivists think, that man exists like an ant, only as a member of his group. In fact, it is not a problem of what we are at all. It is only a problem of what the task is, namely, Herculean. Strip away the aid, the arts, and the artifacts of civilization, and what remains is a brutal struggle, if indeed anything remains.

The second belief, then, is equally commonplace: human association is the greatest of all the tools that can be used to make living easier. Through the division of labor, through the accumulation of knowledge, and through the accumulation of capital, human association can act as an enormous lever on the energies a man devotes to his attempt to live. And the results are obvious, attested by the presence of some four billion people. In society, survival is merely a man-sized task.

### **Friendship and Love**

Nor is productive cooperation the only benefit of society. To the material aid that arises from association, we may add all that can be said about friendship, camaraderie, loy-

alty, and love. These, too, make living easier and are part of society's promise.

In short, if we want to live, with each other is the way to do it. Living is the task, "with each other" is the tool. And the tool is practically indispensable.

The third belief of liberty builds on this. It is: that association must not be turned against an individual's attempt to live. The tool must not be turned against its purpose. To observe this is not to disparage association, but to care for it. It is to insist that association not be perverted from its ends.

Admittedly, the task of ensuring that association does not turn against life can be a difficult job, and it becomes more difficult as society becomes more complex. Yet one principle remains perspicuous throughout the complications. We cannot allow anyone to constrain another from acting on his own judgment. That, we can say, undercuts the attempt to live at its source; and above all, it undercuts the attempt to live together. If we are going to live together, in the full sense of both terms, we must insist on living peaceably.

The consistent application of this principle is *laissez-faire*.

When one understands freedom as emerging from such beliefs, one understands in addition how much can be fairly said about the look of a free

society. It is by no means the closed book it is sometimes considered.

We can see, for example, what sort of mutual admiration is likely to bind people in a free society. As liberty is rooted in the problem of living, esteem is likely to follow productiveness, and the great producers, who make our lives qualitatively easier, will obviously tend to be major figures. The Jeffersonians, we know, gave great honor to those who discovered practical knowledge, and that estimate will probably be part of the Jeffersonian outlook whenever it reappears.

Again, by understanding the roots of liberty, we can see why a free society is a generous society. Alexis de Tocqueville remarked on this aspect of liberty. He said of the free citizen, vis-a-vis his fellows: "As he sees no particular ground of animosity to them, since he is never either their master or their slave, his heart readily leans to the side of kindness."

And at that, Tocqueville was thinking of freedom only as "live and let live," as being neither slave nor master. When we think of freedom as "living together," with each of our fellow citizens an actual or potential ally, how much more our hearts must lean toward kindness.

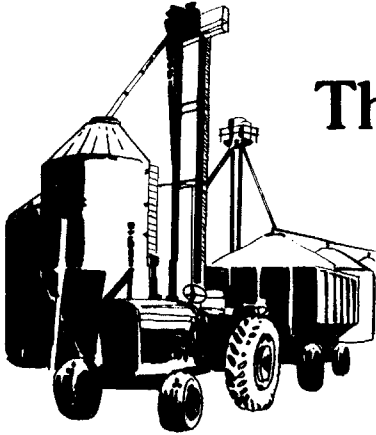
But most of all, by seeing the ground of freedom, we can see how intensely sociable it is. The idea that liberty is based on a competition for

survival becomes ludicrous. Liberty is based on a cooperation for survival.

Even the specific economic phenomenon of competition exhibits this cooperativeness. For economic competition is essentially the struggle to be chosen as a trading partner. And, as trade is mutually beneficial, economic competition is thus essentially a competition to cooperate. It is a struggle to reach what is mutually beneficial.

So finally we see, by looking at the roots of liberty, what a shame it is that defenders of freedom are silent about this sociability. Proponents of a system that is based on cooperation ought not wince at the word "society," whose origins are in the notion of an alliance. People who understand how humans can truly live together should not be shy of conviviality.

Great evils, undoubtedly, have been committed in the name of community and fraternity. The words have been used to damn the individual's attempt to live, and they have been used to cover all manner of coercion. But it is terms of association that have been used precisely because, in proper context, those terms stand for great values. These values of community should be reclaimed for liberty, not only because the coercive state perverts them, but because the free state does not.



# The Farm Strike— *Will It Do More Harm Than Good?*

THE current farm "strike" is an expression of frustration over low farm prices. No doubt about it, farm prices are low, farm expenses are high and the result is desperation. Economic security is flimsy, unpredictable, as changeable as the weather.

All of agriculture is now on front and center stage as the strike makes headlines in magazines and newspapers and on TV and radio. The 200 million plus audience wonders what is going on, what is causing all the concern. If viewers are impressed, the strike could turn out to be a plus; if viewers get disgusted, the strike could turn out to be a liability for all of agriculture.

Participants hope for results in the form of better prices. But is there a chance of this happening? And if the whole incident turns out to be a badly engineered dream, to where does the credibility of the American farmer go?

Meetings around Montana have been emotional. Very little has been presented in the form of basic questions or of basic answers. Since the strike strategy is so new for agriculture, there are many questions that should be faced squarely.

Strike leaders want 100 per cent of parity and their focal point is President Carter and Secretary Bergland. And the questions start coming. Since when is Uncle Sam in a position to determine the full price of a commodity—and pay it too? Since when is Uncle Sam to serve as

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a substitute for the market place? How does the message from the strikers to Congress and the President compare to the message of the farm organizations which have been concerned for years and years about farm prices?

One leader in Montana agriculture asked the writer recently, "Where were these people when we needed them?"

Presumably everyone involved in agriculture believes in private enterprise, which exists on the assumption that opportunity and risk go together. Are strikers asking for government to take the risk, but leave the opportunity to individual hands? Will the result be one step closer to government taking over all of agriculture?

Another agricultural leader commented to the writer, "What ever happened to the right to go broke?"

Is there a possibility that the focus of the strike is on the wrong topic at the wrong time? Could it be that excesses of the federal government are the real culprit, and just now we are forcing a late payment out of the farm sector?

Excesses of the federal government have been enormous and continuing right up to the farmstead office where the books are maintained. The list of excesses is long and frightening. We are now a half-trillion dollars in debt—\$60 billion

more this year alone. Before election, candidates talk about balancing the budget—but they never get serious after election. The Social Security system is a rip-off of the first magnitude because it is basically a welfare program. There is absolutely no proof that the past government farm program, or the present farm program, will help agriculture one tiny bit, yet government continues to give this impression.

Government is out of control with all of its controls—the new federal estate tax law is considered by many an outright fraud—it is far worse than the old law, yet was enacted as "reform."

Could it be that the problem is really the federal government with all its excesses, and that the real problem is being bypassed, ignored, not recognized?

More questions. If the strike movement is successful in getting \$5 wheat, then who gets to sell? And who doesn't? And what then will be the price for the individual who doesn't get to sell?

If \$5 wheat reduces consumption—and a higher price always does—then what price for additional bushels that might be produced? American agriculture has an enormous capacity to respond to higher prices. The price of grain right now is without a doubt a direct result of

the last time wheat went to \$5. Even at the present \$3, the market doesn't want all that grain. How much less will the market want at \$5? And then what is the price of grain when some is sold at \$5 and some not at all?

If picketing actually stops the flow of agricultural commodities, could the situation be made worse instead of better? For example, assume that picketing stops the flow of beef, a very perishable product. Producers will keep the beef off the market at an increased cost. Sooner or later the beef will have to enter the market with a rush. Every farmer knows that a rush on the market means lower prices.

Or take grain. Suppose the strike prevents wheat from getting into export channels. Buyers don't have to buy their grain from us; there are other sources. So they go elsewhere. Which leaves more, not less, grain in the U.S. without a market. Could the strike, if effective, make matters worse instead of better?

Has the law of supply and demand been repealed? Some strike leaders say the law isn't working now. If it isn't working, then how can it be that as more bushels of grain are produced the price goes down? Or, as demand increases, as it did when the price went to \$5, the price went up? Or as the beef supply increased, the price went down? Or as there was a

demand for animals a few years ago, that the price of beef went way up?

Some get the idea that the law of supply and demand is working as it should for agriculture, but that it isn't working in other segments of the economy. Not so.

*Headline*—"25,000 steel workers out of work because foreigners will produce it for less."

*Headline*—"Foreign cars take a greater share of the market."

*Headline*—"Fewer Americans now belong to unions."

In some situations, the law works slowly, in some more rapidly. But as far as anyone knows, the law has not been repealed, and is still working.

More questions: Is it to be assumed that the market must take all of the production of an industry at a stated price whether it wants it or not? If striking farmers can somehow cause the market place to take their products at 100 per cent of parity, then do the same rules apply to producers of toothpicks and fencing pliers? If Rule A states that in private enterprise the market has to take all of a commodity at 100 per cent of parity, then presumably, it would apply to both farmers and producers of toothpicks and fencing pliers.

Or is the market place the best place to determine how much of a commodity should be produced?

The farm strike has all the earmarks of (1) assuming that the law

of supply and demand has been repealed, (2) asking government to take over agriculture even though this is not the view of many producers, (3) ignoring the basic purpose of the market place which determines, through price, how much of a commodity will be produced, (4) making the situation worse instead of better by ignoring so many of the basic forces at work.

The selling price of farm commodities is the problem that stares the farm bookkeeper in the face. But it isn't the basic problem. The basic

problem is the excesses of the federal government that has over-spent and promoted rapid inflation; deceived the farm population into thinking that government can do things it can't do; legislated an economy with unfair advantages and disadvantages. Legislators in Washington should be hearing the *reason* for low farm prices, not just the story that prices are low. Sooner or later the bills have to be paid, and American agriculture is now paying the bills for the past excesses of the government. ☉

### No Special Privileges

IN the limited government society, where government gives no special privileges or subsidies, but confines itself to defending personal freedom and the right of private property, men will naturally form voluntary associations where group effort is more efficacious than solitary action. Voluntary associations do, then, indeed make prodigious contributions to the progress of mankind. They diversify, enrich, harmonize, and stabilize society. *In a regime of unlimited government, however, strong private associations expend their effort in a quest for special privilege and advantage.* Disguised anarchy, large-scale power structures, and chaos are the necessary long-run consequences.

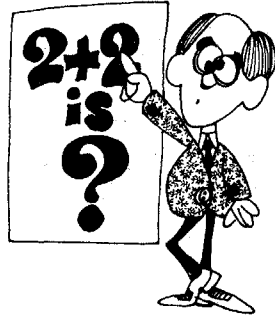
The fundamental duty of the state in a free society is to prevent any person or group from infringing on the rights of others. Failing to perform this task—and our government is today failing to perform it—the modern state is guilty of the most profoundly damaging dereliction of duty. Instead of being the servant of the community, it becomes a co-conspirator against the community. Instead of waging unceasing war against the enemies of society, it joins with them in a league of mutual assistance against society.

IDEAS ON



LIBERTY

# LEVELS OF DISCUSSION



THE NOVICE in economic and social thought is bewildered by the great variety of competing philosophies, ideologies and doctrines that vie for his support. In desperation about the apparent confusion, he may shun the social sciences altogether and seek other knowledge. As a young student, Albert Einstein despaired about economics and turned his great intellectual powers toward physics. Many others of lesser talent may just imbibe the brand of thought that is fashionable at the moment. Or they may readily accept that which is available at their particular institution of learning. Others may temporarily suspend their judgment until they have

thoroughly analyzed the various schools of thought. As students, they may be sitting at the feet of the great scholars anywhere in the world until, after much deliberation and research, they are prepared to take a position of their own.

For the scholar who soberly and deliberately pursues knowledge, there is a short-cut to the issue. He may simply judge the level of scientific discussion in which each of the contending schools is engaged. The level may range from the most exacting dispassionate analysis of a subject matter to the most primitive emotional exchange of debate tricks that negate any pretense of scholarship. The latter may be very popular with the masses of people who prefer entertainment over enlightenment. The seeker of truth

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has no choice but to listen to serious scientific discussion.

Many years ago Eugen von Böhm-Bawerk, Austria's foremost economist and statesman at the turn of the century, described his search for knowledge. In his critique of the writings of Marx and Rodbertus he was looking at the exploitation theory "with its best foot forward." He tried to adhere to what we today would call "a policy of equal opportunity for all contending doctrines." In the language of the Continental aristocrat: "He who would be victorious on the field of scientific research, must allow his adversary to advance in all the panoply of his armor and in the fullness of his strength."<sup>1</sup>

The great writings that have passed the test of time reflect this calm confidence in the ultimate victory of truth over error. Surely they recognize that man is a creature of impulse and emotion and that he is perpetually swayed by his interests, passions and vices. But man was also given his power of reasoning which makes way for revelation and knowledge. Reason is the candle in man's hand which enables him to explore and discover.

Popular writings may appeal to passions and emotions. But the taste for emotion is a very fickle taste that changes continually and fatuously.

<sup>1</sup>*Capital and Interest* (South Holland, Illinois: Libertarian Press, 1959), Vol. I, p. 250.

The writers who, for the applause or gratuity of the moment, appeal to such tastes are riding the waves of human folly that will swallow them in the end.

### Jokes and Insinuations

Most contemporary writers on social matters, even the most illustrious among them, are merely skillful surfboard riders whom the next wave may engulf. They entertain their readers with wit, jest and jocularity, carefully avoiding any serious discussion with knowledgeable opponents. They may ignore their critics entirely or, if this can no longer be done, shoot at them with malice and hatred. A poor joke may take the place of a rational reply.

Paul A. Samuelson, the vocal spokesman for post-Keynesian political economy and Nobel laureate in economics, mostly ignores the writings in defense of individual freedom and the private property order. In his *Economics*, the textbook for millions of American students, he brushes them aside "as conservative counterattacks against mainstream economics." He neither defines nor describes these counterattacks, but having announced them in a bold-face title he demolishes them with a four-line gesture of disgust. With selfishness, ignorance, and malice "there is not much intellectual arguing that can be done." (10th ed., p. 847)



He devotes half a page to "Chicago School Libertarianism" of men like Frank Knight, Henry C. Simons, Friedrich Hayek, and Milton Friedman. He lumps them together under a cryptic label and rejects them as "provocative negations." His favorite target, Milton Friedman, is dispatched with an ugly joke. "If Milton Friedman had never existed, it would have been necessary to invent him." (p. 848)

But the champions of all-round government ownership or control in the means of production are treated with utmost courtesy and respect. He devotes eight pages of text supplemented by eight pages of appendix to "eminent," "competent," and "eloquent" advocates of radical economics from Karl Marx to John G. Gurley. He quotes extensively from their writings without refuting any of their arguments. To Samuelson, Karl Marx "was as much a philosopher, historian, sociologist, as a revolutionist. And make no mistake. He was a learned man." (p. 855) In fact, Samuelson echoes Engels: "Marx was a genius . . . the rest of us were talented at best." (p. 853)

Samuelson is riding the high waves of fashionable folly. It does not speak well for the American Academe to have made his writings the best sellers of our time. And depend on it, a society that builds its policies on such thought faces misfortune and calamity.

The writings of J. K. Galbraith are as popular with bureaucrats and politicians as Samuelson's work with academicians. It is true, Galbraith abstains from crude personal attacks on authors who disagree with him. He merely ignores them. He is utterly unaware of the subjective-value theory and its important ramifications. In his own book on *Money* (Houghton Mifflin Co., 1975) he does not deal with a single monetary thought of the Austrian writers. But he mentions Joseph A. Schumpeter, Friedrich von Hayek, Ludwig von Mises, Gottfried Haberler, Fritz Machlup and Oskar Morgenstern, composing "the world's most distinguished coterie of conservative economists." Having lived through Austrian inflation they all shared "a profound mistrust of any action that seemed to risk inflation along with an even greater distaste for anything that seemed to suggest socialism." (p. 186) This is Galbraith's only reference to a school of thought that for more than a century has spearheaded the scientific discussion of money and the systems of social organization.

Galbraith is a clever phrase-maker. Almost instinctively he uses figurative or metaphorical terms that are favorable to his contentions and unfavorable to those of his critics. Pre-Galbraith economic knowledge is "conventional wisdom" which is "obsolete" and "pessimis-

tic." After that rhetoric so brilliantly flavored with the spices of intellectual omniscience, who would have the courage to identify with "conventional" and "obsolete" knowledge? Who would care to join "the coterie"? For Galbraith any further discussion is redundant.

### **Talking To The Audience**

Most academic writers do not painstakingly analyze the theories and arguments with which they disagree. It takes great effort and labor to reach beyond a familiar body of thought and wade through the armory of a different school. Indeed, it is much easier to talk to one's own audience and seek its applause. The Keynesian writers are scribbling for their followers, the "radical economists" for theirs.

Where a particular assertion is in need of verification and support, they may appeal to authority rather than rely on their own reasoning. They may cite another writer of similar persuasion, a member of their own school of thought. Samuelson may quote Solow and Solow, Samuelson. Neither of them knows, or cares to know, what Mises and Hayek have written about the subject matter.

The great writers whose works survive the test of time reach beyond their particular audiences and seek truth regardless of its popularity. They analyze doctrines and

theories; they do not psychoanalyze their opponents. They refute errors and fallacies, they do not malign the person who errs. They do not engage in propaganda, they search for truth no matter where it should be found. In the interests of science they pursue the truth even if society should dislike and reject it. They do not primarily teach that which they know, but endeavor to discover that which they do not yet understand. To seek for the truth, for the sake of knowing the truth, is their first objective.

Human understanding is always liable to error; infallibility is denied to man. Therefore, error needs to be exposed and corrected. This is the proper function of scientific critique. But it must not just destroy and pull down, it must direct attention to the excellent and positive.

### **Emphasize the Positive**

Error must not be permitted to run its course and work its harm. It must be confronted and refuted in order to make way for truth. But it is difficult to decide which fallacy should command our attention and effort, and which one should be ignored. Ludwig von Mises considered it an important task for young scholars to confront and explode popular fallacies. To recognize error and refute it was a minimum requirement for doctoral candidates and prospective economists.

Leonard Read built his creative efforts on the observation that "action that is wholly against must lead to inaction as soon as it is successful." In all his writings and the activities of his Foundation, he and his associates are emphasizing the positive, bringing to light that which is right. They are convinced that only positive views of truth show the way and can lead to action. For this reason they try to avoid the arena of heated debate and criticism, and instead, proceed on the steady course

of learning and explaining the freedom philosophy and its miraculous results.

And yet, all findings must be submitted to the test of free discussion which is a reliable friend of truth. Trickery and emotion in argument betray a conscious weakness of the cause and often signal despair. Indeed, we may be able to judge our adversaries, as they may judge us, by the levels of discussion. Ⓜ

### A Cage of Apes

BLIND conformity, regimentation, and loss of the individual in the mass are both national and individual suicide. When we have reduced the world to a cage of apes, each imitating the other, we may be perfectly sure that we will be apes and nothing more. For leadership does not develop in an atmosphere that provides no opportunity for change, growth, and self-determination.

God gave you legs on which to stand, and may He forgive you if you use them only as something with which to run away from reality. Yet he who takes a stand on anything today is in danger of being torn to pieces by those who run with the pack. *Do you dare to be different?*

Despite all interpretations of the Constitution to the contrary, man still has innate and inalienable rights. One of these is the right to be an individual. But this right is also a responsibility. If you refuse the responsibility, as so many people today are doing, you will be deprived of the right—as has happened in almost every other country in the world. The hour calls for people who dare to be individuals in a world where it is fast becoming improper to be anything but apes.



# Is the Free Market Ethical?

FREE-MARKET economists have amply demonstrated and documented the fact that free enterprise is the most efficient and productive way to provide for people's economic needs and desires. The simple but powerful logic of supply and demand is irrefutable, and even the critics of the free market acknowledge that the "invisible hand" of self-interest can produce and distribute goods and services without any need for central planning and control.

Yet, the pervasive critics and opponents have succeeded in convincing much of the world that there is something sinister or immoral about the free market and private enterprise. Even when they acknowledge its efficiency, they claim that free

enterprise is somehow unfair or inherently exploitive. Even when they agree that the free market is productive, they argue that it produces the "wrong" goods, too much advertising, for instance, or too many luxury goods, and not enough "public goods" such as education.

The opposition to free markets, then, is often not so much an economic claim as a moral one. Marxists, for example, claim that profit is the taking away from the workers part of the value which they put into their products, a value that, in their view, rightfully belongs to the workers. Less radical advocates of government planning claim that though the free market may be efficient, it does not produce the goods that people "really need," such as health care, or that the inequalities of wealth resulting from free market forces are for some reason wrong.

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When one speaks of what people *should* consume, or what a worker *should* earn, these "shoulds" are moral considerations. These are moral attacks on the free market, which must be answered by moral arguments, since they are based on goals and values rather than facts about how an economy works. So let us examine the question, is the free market ethical? In order to answer that question, we must first ask, what exactly is a free market?

Assuming we know what a "market" is, the question hinges on the word "free." In the context of society, "free" means free from the coercion of others. More specifically, it means an absence of coercive harm, which includes coercive restrictions. A person is free when he can buy, produce, and sell whatever commodity or service he desires, with no arbitrary interference from others. Thus, the market is free when all the individuals in it have this freedom.

In a free market the transactions are voluntary. A market is unfree to the degree that people are forced to produce according to some decreed method, or trade at a dictated price or quantity, or give up their earnings and profits to finance some politically chosen "good works."

Opponents of free markets often criticize the inequalities of wealth that may result from it. One premise which they will generally agree

with is the moral equality of man, that all human beings are equal in human rights. Moral equality implies that no one may claim to be morally superior to others, and that no one may impose his beliefs, values, and desires on another, for those of one person have equal standing with those of anyone else.

This means that if one person believes that certain goods "should" be produced, he has no moral right to force another to comply with this personal belief. Each person has his own unique personality and his own needs and desires, and moral equality implies that each person has the equal right to decide how he should live, including how he will work and what he shall buy and sell.

Thus, the basic moral principle compatible with moral equality is that no one may impose his personal will on another. One may use force only in self-defense. Otherwise, coercion is morally wrong, and that implies that people have the right to do whatever does not coercively harm others. Actions which do not coerce others are morally right, or at least not wrong, from society's point of view. For example, if someone sells cigarettes, he could be accused of selling something harmful to health, but since their purchase is voluntary, it is not coercive, and thus not wrong.

Since a free market is, by definition, one that is free from coercion, it

follows that the free market is ethical; without coercion there is no moral wrong, from society's viewpoint. If some people do not like the allocation of goods in a particular free market, they are entitled to their opinion and personal ethical beliefs, but not entitled to impose their values on others by force. Even if they are in the majority, opponents of the free market who feel that profits are nasty or that inequalities of wealth are wrong have no right to inflict these personal opinions on others, just as they have no right to force others to adhere to their religious beliefs. So, not only is a free market ethical, but any other economic arrangement is inherently unethical, since it must involve coercion!

In a free market, goods and services are worth what people believe they are worth and are willing to pay for. The free market, and only the free market, allows people to act on their individual desires. Moral equality is not the equal right to the good produced by the economy, but rather the equal right to be free from the coercion of others.

Government interference in the free economy is not only wasteful and unnecessary; it is also wrong ethically, just as wrong as theft, kidnaping, and trespassing are when committed by private individuals. Of course, markets can also be coercive without government in-

volvement. Slavery, for example, is not a free-market institution, since the slaves are not voluntary workers. But slavery and other coercive practices have generally been committed with government sanction. State monopolies, such as the post office, and industries "protected" from free competition, such as transportation, are coercive not only in taxing us to support the inefficient and superfluous bureaucracies and pay higher prices, but in violating our rights to peacefully pursue our own business.

Those who oppose free markets and use the power of government to enforce their personal doctrines are imposing their views on everyone else as though they were somehow morally superior to the rest of us.

A free economy is part of a free society, one in which each person may live by his own values. A free society has a free market for the same reason it has free expression and the freedom to choose one's lifestyle: because people have the right to be free from coercion in any area of life. Not only are the opponents of free markets wrong, in their moral arguments; their proposed alternatives are inherently immoral since they are coercive.

The case for the free market exists on firm moral ground: the free market, free from coercion, is the *only* ethical market. ⊕



# World in the Grip of an Idea.

Clarence B. Carson

## 16. Sweden: The Paternal State

ONE of the most curious notions of our era is that of the paternal state. Not that it lacks antecedents; it even has a history, of sorts, going back into the dim past of which there is little record. Nor is it curious because we ordinarily refer to it as the paternal state, for we do not. Ordinarily, it is called the welfare state, or, by some of its proponents, the social service state. It is a notion only in the sense, then, that it is the idea which underlies the practices

we have come to associate with something that is called the welfare state.

The welfare state notion does not strike most people as odd or curious, so far as we can tell. Clearly, if politicians can run for office and get elected on the basis that they will provide a great variety of goodies, the idea is widely accepted. That it should be so accepted, however, does not mean that it lacks curiosity; it is rather testimony to the fact that when an idea becomes sufficiently familiar, no matter how peculiar it is, it can become a part of the perspective from which we see things. Then it will seem strange

*In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.*

that at other times and places people did not see or do it that way.

The paternal state notion is curious, in the first place, because it misconstrues the character of the state. The state is not something that can be likened to a father. It does not beget, as a father has done. Nor is it a provider, as the father is supposed to be. The state, or government, is begat, but is itself sterile, sexless, and forever barren. It has no means of its own and is incapable of producing any. It is, so to speak, an abstraction. Whatever the state bestows, it must first take from those who have produced it. Unlike a real life father, it cannot look after us; we must first look after it.

In the second place, the paternal state is a curious notion when viewed in the light of most of history. Those who have governed have usually been the possessors of such ostentatious wealth as was abroad in the land. They have usually been in possession of the finest residences, the best clothes, the most servants, the finest conveyances, and whatever happen to be the going trappings of office. Far from being material benefactors of the people, they have usually been beneficiaries of an unwilling largess from the people. They have entangled their peoples in dynastic wars, taken their substance in order to realize the personal ambitions of rulers, and

all too often played havoc with the lives and goods of the people. Far from being father-like—seeking the good of their children—, they have all too often been robber-like and jailor-like. It is greatly to be doubted that the notion of the paternal state would ever have arisen from an empirical study of history.

### **Family Ties**

Even so, government, or the state, may have arisen on analogy with paternity or as the paternal state. Historians have been generally of the view that government may have come into being as rule over the extended family. The organization is usually referred to as the clan. The clan was ruled over by the oldest male, or the male from whom all traced their lineage. If the orientation was maternal, or if allowance was made for maternal rule, the ruler might be the oldest female. The bounds of the state would be the lands claimed by the clan. Such an arrangement would, no doubt, be a paternal state. Nor would its character change greatly if it were enlarged to include several clans and these should be ruled by a council of elders. Family ties, at least within clans, would make it still fundamentally paternal. Undoubtedly, the task fell upon the elders of providing for and looking after those in their care.

The rudiments of this idea can be



discerned in hereditary monarchy and similar arrangements. The king was not literally the father of his people, of course, but he could be thought of in that way. Some monarchs have been described as "father," or "little father." The council of elders might survive, too, under various names. (The Witan was some such council in England, for instance, as is the surviving House of Lords.) The Roman Catholic Church uses language drawn from paternity to describe many of its clergy. The hereditary feature of monarchy must derive from the paternal concept. While we may doubt that the paternal state could rightfully be applied to monarchies, it does trace its roots to the same idea.

### **Anathema to Socialists**

What is curious here, however, is that socialists should produce and champion a paternal state. Virtually every idea in it has been anathema to socialists. They have ever been ideologically opposed to monarchy. They have been, in all instances, convinced and committed republicans. The paternal state is a conservative idea. Modern socialism stems from the time of the French Revolution, when the emphasis was upon individual rights, when family, tradition, and the whole paraphernalia from the past were in question. Custom and age were los-

ing veneration. Mechanical concepts were replacing ancient ties of flesh and blood.

Moreover, conservatives have played a role in advancing the paternal or welfare state. Disraeli in England, a leading conservative of the latter part of the nineteenth century, took a hand in introducing welfare measures. Even more impressively, Otto von Bismarck, a reputed conservative and Germany's leading political figure of the latter part of the nineteenth century, brought welfarism to Germany. As one history says, "Between 1884 and 1889 gigantic welfare schemes, the first of their kind in the modern world, provided health, accident, and disability insurance, pensions for widows, orphans, and the aged, giving workers greater security and better living conditions."<sup>1</sup> It is not uncommon to read that conservatives enacted welfare measures in Sweden.

However, writers often ascribe this penchant for welfare legislation in conservatives to untoward motives. Bismarck, it is sometimes said, was end-playing the socialists. He may have been, of course, but we have no way of being certain of his motives. In any case, conservatives are as entitled to a presumption in favor of the purity of their motives as anyone else. And for politicians to seek advantage through their acts only appears strange to those who

can imagine large numbers of selfless people, something that is possible in the imagination but unlikely in the real world. In short, if conservatives have, with some consistency, advanced welfarism the answer should be sought in conservatism, not in something they share with everyone else.

And there is an explanation within conservatism. One of the facets of conservatism is paternalism. The role of the father as head of the household is an ancient and venerated practice. In an extended fashion, the role of the elders within the community as providers and carers for those in need is of long establishment. That those-who-have ought to reach out toward and lend assistance to those-who-have-not is one of the deepest springs of conservatism. Thus are the bonds of community knit together and the common humanity of those within it confirmed. Conservatives in power in a state have a tendency to devise and support the paternal state.

### **The Conservative Element**

This may be somewhat confusing to many of those who think of themselves as conservatives in the United States. Many thoughtful American conservatives are not in the least sympathetic with governmental paternalism (though there are those who are). Indeed, it can be argued

that to be conservative in America is to be opposed to governmental paternalism. There is an historical explanation for this. A strenuous effort was made at the founding of the United States to delimit paternalism. The doctrine of limits pervades our constitutional arrangements. Whatever arrangements a father wished to make for his household was left to him. Associations of men were in like manner left to their devices to form communities and do within them what they would, so long as in so doing they avoided doing some civil or criminal injury. Such arrangements required, of course, that the force of government be denied to any and all in effecting their ends.

It is commonly said that there is a separation of church and state in the United States. The matter runs even deeper than this. Though it is nowhere formally stated, there is a separation of parenthood and the state. At the founding of the United States the individual was released from the tutelage of the state, so to speak. A profound distinction was made between what is the affair of individuals and what are affairs of state. That is the essence of constitutionalism in America. To defend those arrangements became political conservatism in America. Paternalism may have been augmented in America, but it was a paternalism divorced from politics.

European conservatism has a different flavor to it. The separation between parentage and the state that occurred in America did not occur generally in Europe. An American and a European conservative may share similar values, but the import of these values is altered by differences of perspective. The dangers of the state were not so obvious to European conservatives as to Americans. Indeed, those who hold and wield power are unlikely to be impressed with the danger of it, for men do not ordinarily consider themselves dangerous. The paternal stance is, after all, ego flattering, and European conservatives kept it within the makeup of their perspective.

It is not my point, however, that the animus to the creation of the welfare state came from conservatives. That is about as likely as that sow's ears come from silk purses. Socialism provided the yeast for the welfare state; the people provided the dough; and conservatism provided its intricate patterns. To put it another way, the paternal or welfare state is the end product, thus far, of socialist equalitarian prescriptions when they have been winnowed through the overlay of conservatism in society. The distributive thrust is socialist; the shifting bubbles are populist; and the paternalism is conservative.

As if all this were not irony

enough, this strange blend is often referred to as liberalism, not only by American writers but by those in other parts of the world as well. Historic liberalism was not in the least paternal. Its main thrust in the nineteenth century was to limit government, to free the individual, to permit trade without let or hindrance, to expand the suffrage and popular government. The equality that animated liberals was one that held that no man having reached seniority ought to be under the tutelage of another. In the quest for this condition, liberals relied rather heavily on extending the vote and establishing or maintaining popular government. Now, however, we have the paternal state which is widely proclaimed as liberal. Proponents of the welfare state have gone far toward co-opting the available intellectual positions.

### **The Paternal Role**

The topic at hand, of course, is Sweden and the paternal state. Since Sweden does not proclaim itself to be a paternal state, and since the phrase is by no means generally employed, some proof of the proposition is in order.

What is a paternal state? It is, in brief, a state which takes over and performs the functions of a father, or those of the dominant parent. Since some may have forgotten the role of the father and the grounds for it, it

may be helpful to recall it. It is on the father's physical initiative that the act is begun by which conception takes place. Since the male's physical condition is unaltered by the ensuing pregnancy and since, in any case, he is larger and stronger, it is his responsibility and function to provide for the female and the unborn infant during the period of pregnancy. It is his task, of course, to make provision for the delivery of the child.

A newborn infant is helpless, or very nearly so, having only the ability to breathe and the capacity to take nourishment. In this situation, the main task of the father is to protect infant and mother and provide food, clothing, and shelter. Since the human child does not become large or strong or sufficiently well developed to look after himself for several years after birth, both parents perform assorted functions for him. They not only provide for his basic material needs but also such medical care as he requires, for instruction (education) in their culture, for his moral indoctrination, and for such training as may fit him for becoming an adult.

To the father particularly belongs the instruction and training of a son, and to the mother that of a daughter, assisted as they may be by the surrounding community. As the child grows toward manhood, he takes on more and more the role of

the adult and becomes less and less dependent on his parents. As the parents grow old and lose their powers the time arrives for the child to attend them in their declining years.

### Cultural Prescriptions

In practice, of course, it does not always happen that way. The father can terminate the relationship at any stage that he will. Nor does it necessarily occur that mother and offspring will perform in the way described. Hence, there have usually been cultural prescriptions, religious sanctions, and, mayhap, legal enactments to insure the performance of these roles. The roles are themselves founded in nature, but the support of them is cultural.

"Paternal" is descriptive of and derives from the normal role of the father during the formative years of the child. A paternal state is one which assumes or imitates this role. Sweden was one of the first and may be thought of as the model of the paternal state. Until a more thoroughgoing one is devised, Sweden *is* the paternal state.

A qualification is in order. Human fathers have not been entirely replaced in Sweden. But a major shift of the functions of paternity from the father to the state has taken place.

To wit. There may be a gleam in the prospective mother's eye before

conception ever takes place, a gleam aroused by the hope of reward. At the birth of an infant, the state steps forth and awards the mother over one thousand kronor (the Swedish monetary unit). Sometimes, a human father who was especially pleased has bestowed gifts on the new mother. The paternal state in Sweden has removed the element of chance; it is established by law and as sure as taxes.

### **Enter, the State**

As incubation begins, the state stands by to perform vital paternal functions. There are "free" maternity clinics for expectant mothers and their unborn children, and Papa State will pay three-fourths of the cost of dental care. Should custom or remote location lead to the use of a midwife, the state will pay the fee. If the expectant mother needs transport at her appointed time, the paternal state will pay for the cost of the taxi, even if the infant should be born therein. Should they be so fortunate as to make it to the hospital, the service there is "free." If the new mother has been remuneratively employed, she need have no anxiety about her job. The state has established that she may have up to a total of six months leave which may be taken in any combination of prior to, during, and after the birth of the child.

There is one fly in all this oint-

ment, however; in multiple births, the mother receives only one-half the award (only some 500 kronor) for each child above one.<sup>2</sup>

Having taken such pains thus far, it is hardly to be expected that the paternal state will abandon mother and child at the hospital. It will, of course, supplement the cost of housing for mother and child and, should the human father deign to live with them, for him as well. Should the mother be a "single parent," i.e., in a situation in which no wedding has preceded the birth, the state offers special attention and care. The state has caused to be built and set aside for their special use apartments for unmarried mothers. (As yet, no "swinging single" apartments have been built for unwed fathers.) There is also a category known as a "one-parent family," in which the parent may be either male or female, and the state offers aid to them in their undertaking.

Naturally, the paternal state provides support for each child regardless of the parental status of those with whom he dwells. The allowance to the mother for each child is 900 kronor per year. This particular payment ceases at the age of sixteen. In addition, if one of his parents dies, the child receives a "pension" of 1300 kronor. If both parents should die, the amount is increased to 1820 kronor. These payments stop at the age of sixteen also. Espe-

cially needy families can apply for and get additional supplements for each child. Mothers who grow weary of attending children can apply to the paternal state for a holiday grant. The grant pays not only for travel to and fro but also for the costs while at the rest home. Of course, there is industrial insurance to protect workers from injury or disease when they are at their employment (paid for by the employer as required by the state), but compensation takes into account the value of housework lost as a result of being harmed on the outside job.

### **Child Care and Education**

The paternal state has not neglected to provide day nurseries for small children, although such facilities are said to be in short supply. There are nurseries where children may be placed for the day. There are also afternoon homes for children in school who can come to them after school and be looked after and fed while the mother is at work.

It should come as no surprise that the paternal state in Sweden provides for the formal education of the children. Of course, the schools are "free," as are schoolbooks, dental care, and such psychological attention as the child may require. College and university students are assisted by various loans and grants. Nor is there any need for parents to

concern themselves about the character or quality of education, for that has been determined by the state. Of late, there have even been two sorts of school in the land, one of which was initially somewhat experimental.

Children are sometimes sick and afflicted in Sweden as elsewhere, as are also adults. All treatment in Swedish hospitals and clinics is "free." If, however, a physician is called to the home, he must be paid by the patient who can then turn in the receipt and get a refund of about three-fourths of the amount of the bill. Taxis to and from hospitals must also be paid on the spot, but the cost can be reclaimed by the presentation of the receipt.

Once the child has grown up and is ready to marry, or at least set up housekeeping on his own, the fatherly state is on hand to make the transition easier. The state does not quite provide a dowry; it is rather more like a combination of loans and aids. There are housing loans available, and the state will come forth with up to 15 per cent of the collateral value of the house. In some circumstances, a rent subsidy may be forthcoming if that path is followed rather than purchase. A home furnishing loan can be obtained from the state also, with a maximum of 5000 kronor to those in the greatest need.

Just as natural parents are re-

lieved of much of the responsibility for their children, so does the paternal state relieve children of the necessity for caring for their parents in old age. An elaborate system of old age pensions is established. "The idea is to provide every wage-earner, on retirement, with a substantial pension directly related to—in practice about two-thirds of—his or her earnings in his or her prime. There are upper and lower limits to qualifying incomes, that part of the income lying outside these lines not counting for the calculation of supplementary pension. The eligible sum is termed the *pension-bearing* income, and it is a percentage of this amount . . . which is payable by the employer in premiums. Self-employed persons must pay their own."<sup>3</sup> If an old person is not living in suitable accommodations, he can apply for housing in blocks set aside for old people. If, because of some debility, he should need occasional assistance this can be provided in his home. If he is no longer able to look after himself, he can go into an old people's home or into hospitals for the chronically ill.

### **Why No Baby Boom?**

Now here is an anomaly. It might be supposed that with much of the burden of the child bearing and rearing removed from natural parents there would be a great baby boom. Moreover, an additional

thrust in this direction has been provided by removing every stigma from bearing children out of wedlock (if one may employ so dated a term). But it has not turned out that way. As one writer says, "Sweden is extraordinary in its low birth rate and low rate of population increase."<sup>4</sup> As a matter of fact, the lump sum payment to the mother on the birth of a child was devised many years ago with the specific purpose of spurring an increase in births. To no avail. For some time now, Sweden has been encouraging immigrants to come in to augment the declining work force.

Cause and effect in human action is more complex than we may think. It takes place within a context much broader than man's simple legislation and piddling interventions. There is a law in physics that "For every action there is an equal and *opposite* reaction." (Italics added.) The working of the law may be illustrated in this fashion. When someone fires a gun there will be a kick from it. The kick from the gun is the equal and opposite reaction to the action of the bullet being fired from the gun. Reverberations (or repetitions) of action and reaction continue until the stock of the gun is still and the bullet has come to rest. The implications of this law are far-reaching, and we are justified in supposing that they extend to all happenings on this planet.

### Muted Reaction

What will be the equal and opposite reaction to the action of a paternal state conferring benefits on some portion of the population? No answer can be made to such a question in the abstract. One might as well ask how strong a kick a hunter will receive from firing a gun. The recoil of a weapon is, of course, in direct proportion to the size of the explosion which propels the bullet from the gun. The size of the explosion is determined by the amount of the charge in the shell. There is no meaningful limit to the potential variations in the charge.

On the other hand, the expression of the recoil depends upon the materials used and the design of the gun. In some guns, the recoil comes out in the rise of the barrel. In others, it is felt in the stock of the weapon. In some, there is no perceptible kick, owing to weight distribution in the gun. There are even what are called "recoil-less" weapons, by which we understand not that the law of compensation has been abridged but that the equal and opposite reaction has been so cushioned and dispersed that it can no longer be detected. All this is by way of saying that the character of the equal and opposite reaction is determined by the variables of the context within which the action occurs. It is, so to speak, a conditioned effect.

It is, then, the conditions in Swe-

den that determine the reaction to the actions of the welfare state. By many outward appearances Sweden is still a traditional land. There is the monarch, the royal family, the established church, and a government with roots deep into the past. Long observed festivals are reenacted, and folk songs and dances are performed as of yore. Much of the legislation which has brought forth the paternal state has a conservative cast to it. It is conservative to encourage young people to go out on their own and have their own housing. It is even more conservative to encourage marriage and the founding of families. The nurture and caring for children and seeing that they are housed, fed, clothed, and educated has about it a conservative aroma. That people should be looked after in their old age is of similar vintage.

The sound is not to be taken for the substance, however. Sweden is a profoundly different land from what it was at the beginning of this century. A traditional overlay survives; but beneath it, surrounding it, and now overwhelming it, is something quite different. Sweden is under the sway of the idea that has the world in its grip. Those who think of Sweden in terms only of a modified socialism with certain economic policies have not begun to grasp the extent of the change.

The great change has come in the



rooting out of the moral, spiritual, and cultural foundations of the society. The established church is still there; old churches still stand sometimes and many new ones have been built. But attendance is exceedingly slim. Individuals are in the church registers, but such a status requires nothing by way of religious observance, and little is done. Marriages often take place in churches but the frequent divorces saw the bonds of ties in civil surroundings. A new "morality" has arisen, a morality without foundation in transcendent sanctions. Gradualism has slowly devoured what formerly existed and replaced it with something else.

A major tenet of the idea that has the world in its grip is that government shall concert all efforts and bring about a collective unity. The power over affairs is shifted from individuals and families inwardly directed by custom, tradition, and morality to a state driven by goals proclaimed for the future. The acquisition of this power comes by way of the promises which add up to a paternal state.

### **Motives Involved**

What human motives are engaged from the populace in this shift of power to the state? Freud said that man wishes to return to the womb. Whether this is so or not, the present writer cannot profess to know.

But it is clearly the case that there are aspects of childhood to which we would like to return if we have left or to retain if we are still there. Perhaps the most prominent one is freedom from responsibility. The child, the small child anyhow, ever has his material needs provided by someone else: he is suckled, diapered, warmed, and watched over by others. As he grows a little older he can arise at will, play until he is tired at whatever amuses him, and rest until he has recuperated. His is a life without the nuisance of responsibility and bounded only by the aggravations there may be in the exercise of external authority over him.

The paternal state grows on the tacit premise of restoring and maintaining an irresponsibility which has its roots in the childhood experience, then. It shifts the burdens of the adult to the state and, in hope, provides a perpetual childhood for the citizenry.

Within this framework it can be seen why the equal and opposite reactions to the actions of the paternal state are not what might be supposed. Why, when the paternal state has relieved so many of the burdens of parents and even provided rewards, is there not a baby boom in Sweden? Because—to put it in its simplest terms—the state has not relieved *all* the burdens, and that is the underlying promise and

the expectation which its actions arouse.

Because expectant mothers grow large and unwieldy, have "morning" sickness, and their feet and legs are apt to swell on them. Because an infant is still brought forth in pain and suffering, even if the "free" taxi makes it to the "free" hospital. Because children still require a great deal of attention, however much assistance the state may provide. Because the bearing of children has its ultimate meaning within the framework of extended family, community, and moral and spiritual overtones. Because beaming grandparents are the human reward for a newborn child. Because the gathering of friends and relatives to inspect and "ooh" and "ah" over the infant is a normal incentive. Because Divine injunction supports replenishing the earth with children. Because the normal consequence of aroused sexual passion is conception.

Because socialists in devising the paternal state have tampered with and cut away the framework of bearing and nurturing of children and the purpose of the family. Because the idea of a perpetual child-like carefree existence would require that there be no children for whom to care. Because contraceptives and abortions are in accord with this idea rather than the bearing of children. Because the paternal state

substitutes a cold and impersonal mechanism for the warmth that arises from the freedom and responsibility of normal human action. Because for every action there is an equal and opposite reaction, though the opposite reaction is the appropriate reaction to the action.

Because, in the final analysis, the paternal state is an anomaly. It is of the same character as the notion that there can be a rifle without recoil. The paternal state is a notion born of and promoted by hiding the consequences as the "recoil-less" rifle is an appearance achieved by design and materials. The state is an abstraction. Unlike a human father it neither toils nor spins. All that the state hands out as benefits must first be taken from those who labor. It is time now to look at the carefully concealed other side of reality hidden by socialist rhetoric. ☉

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Next: 17. *Sweden: Tightening the Screws.*

#### —FOOTNOTES—

<sup>1</sup>Eugen Weber, *A Modern History of Europe* (New York: W. W. Norton, 1971), p. 813.

<sup>2</sup>These figures were taken from Paul B. Austin, *The Swedes* (New York: Praeger, 1970) and should be considered as illustrative rather than final, since the amounts do change from time to time.

<sup>3</sup>*Ibid.*, pp. 84-85.

<sup>4</sup>Donald S. Connery, *The Scandinavians* (New York: Simon and Schuster, 1966), p. 392.

# What Price Control Really Means



"In the great chessboard of human society," observed the eighteenth century Scot philosopher and economist Adam Smith, "every piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it."

The belief that individuals are pawns to be pushed about by central planners is not new, as this statement by Smith clearly indicates. Indeed, socialism—the controlled society—has its roots in the actions of primitive man. When the first cave man clubbed his neighbor to expropriate the food his neighbor had gathered, he gave blunt, physical expression to the essence of socialist society.

Two centuries after Adam Smith penned his eloquent defense of the right to be free from coercion, coercion is again in the ascendancy. It is seen by many as the "quick fix," the answer to chronic problems, a panacea that will bring order out of chaos. In 1795, James Madison described this phenomenon as "the old trick of turning every contingency into a resource for accumulating force in goverment."

The issue of price control provides an excellent illustration. Invariably, as prices rise due to an expanding money supply, talk is heard that government must impose controls. The fact that such talk is becoming more and more prevalent these days may be a warning that price controls loom on the horizon. Therefore, it is absolutely essential to the debate

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that all be made aware of the true implications of government price-fixing. Just what is it that control of price by central planners means? What are we abandoning when we embrace the idea?

### Forcing People to Conform

The object of price control is really not the control of trillions of numbers and dollar signs in the economy. Price control is merely an excuse to coercively dictate the terms of trade between *people*. The penalties for violating price control edicts are levied on *individuals*. Jails and fines are made for people, not for prices. In Revolutionary France, those individuals who dared to trade at prices not in conformity with the "Law of the Maximum" paid a visit to the guillotine.

When government fixes price, coercion is substituted for voluntary exchange. Price is no longer determined peacefully in the market place of free and willing trade. Economic consequences must follow and they are easily discernible in light of the two functions of price.

One function is to allocate scarce resources. When anything is scarce, as all economic goods are, it must be rationed. Supply must somehow be equated with demand. If the market place be imagined as a huge auction, the problem becomes one of who shall get what quantity of the goods to be auctioned. Do we draw straws,

or beat each other up until the number of survivors equals the number of goods? Would it make sense to line everyone up, fire a gun, and declare that the fastest runners shall receive the goods?

The economic way to ration scarce resources is through the price system. By way of the "market price," supply and demand meet, the market is cleared, and scarce resources are allocated. In so doing, chronic shortages and surpluses are avoided, the productive process is left unharmed, and peaceful exchange becomes the reigning principle. It is a perfectly natural process; all that is required for it to take place is for men to be left alone to pursue their own desires and abilities.

Price also directs production, its second function. Businessmen are professional price-watchers. If consumer demand for a product increases, consumers are willing to pay more for that product. This puts pressure on price to rise, which raises profit margins. In order to take advantage of this profitable situation, businessmen increase their production. The process works in the other direction too: declining consumer demand will mean falling price and falling profit margins. In that case, price will "signal" producers to abandon that line of production and enter another where the demand is more urgent. In the free economy, it is not necessary for the

government to issue an edict to the farmer, "Grow wheat; the people want bread." It is not necessary for the government to instruct a manufacturer, "Make televisions; the people want entertainment." The marvelous mechanism of price does the job far better than the noblest and wisest politician.

### **Economic Disruption**

The economic consequence of government price control is economic disruption. A controlled price will still allocate resources, but not in accordance with supply and demand. Likewise, a controlled price will still direct production, but not in the same directions as consumers, by their voluntary purchases, would have dictated. The signals are falsified and distorted by fixed prices. The history of price control in America and everywhere else has been the history of shortages, queues, and popular disaffection.

The economic effect is but one aspect of price control. A moral question is also involved. By what right does any party coercively dictate the terms of trade between others? By what twisted principle of justice is one penalized for trading with another at a mutually-agreed upon price?

Price control is a form of public theft. In the name of "the public good," the authorities are empowered to force their particular val-

ues on others. The victims are all those deprived of the opportunity to trade or to trade on terms which they regard as satisfactory. Price control breeds a spirit of lawlessness, a network of spies and informers, and is unmistakably a hallmark of an immoral society.

To those who are committed to price control, these arguments perhaps will not be sufficient to dissuade them. They may reply that whatever evils price control might produce can be corrected at the ballot box. The people can supposedly use their political liberty to counterbalance their loss of economic liberty. To make this assumption is to ignore the manifest threat to political liberty that price control poses.

It is no exaggeration that *the economic order determines the political order*. If people are so controlled economically that their every move is subject to scrutiny by the State, then they can be effectively silenced by the State. "Control of a man's subsistence is control of his will," wrote Alexander Hamilton. It is inconceivable that economic freedom can be lost while political freedom remains intact. A brief glance at history confirms what theory teaches.

In the mercantilist period, roughly 1500 to 1800, the State controlled the economy. The subjects did not elect their kings and queens.

In the thousand years of feudalism, the State controlled the economy. The serfs did not vote their masters to power.

In modern-day Russia, the State controls the economy and two hundred fifty million Russians are governed by a single political party.

In similar fashion, it is no coincidence that Adam Smith's ideas of economic liberty nurtured ideas of political liberty in the nineteenth century. Because price controls em-

power the government to establish a vital command post over the economy, they would sow the seeds for the loss of political liberty as well.

Will Americans endorse a policy of price control? If they have lost faith in the free society they more than likely will. If the power of price is delivered from the market place to the politicians, surely ignorance of the grave implications will be the proximate cause. ☉

### Closing the Market

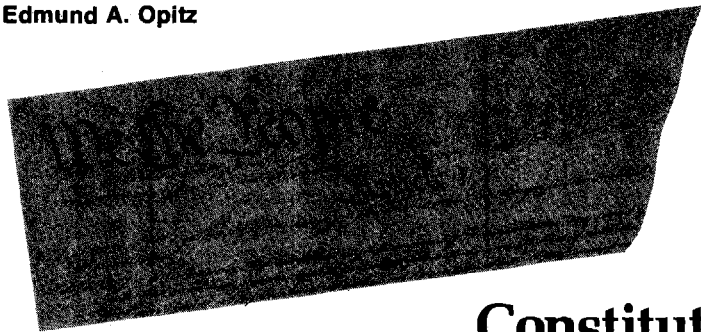
TO TRADE is to exchange one item for another, as butter for coal. Each party to any trade is both a buyer and a seller, and a person must be satisfied in that dual capacity before he will trade voluntarily.

When the government intervenes to force a change from the free market price, the theory is that one of the parties to the trade will gain at the new price. The idea usually is to help the underdog, whether it be the poor consumer and his family, or the poor farmer, or the poor infant industry, or the poor employee, or the poor Defense Department of the government, or whatever. But the theory is false. It still takes two to make a trade. To arbitrarily change a price for the benefit of one party to the bargain necessarily means a change to the other party's disadvantage. And it is always that forgotten *other party* who will not bear the attempted charge. If the government raises the price of butter above its free market level, the owner of coal will not voluntarily trade as much as before. He doesn't want less butter for more coal. So, instead of helping the presumed underdog, the government intervention only drives from the market some of the chances for the underdog to get what he wants through trade.

IDEAS ON



LIBERTY



## Constitutional Restraints on Power

AMERICAN political institutions presuppose certain convictions about human nature, the worth and prerogatives of persons, the meaning of life, the distinction between right and wrong, and the destiny of the individual. The Colonists came to their understanding of these matters as heirs of the intellectual and religious heritage of Christendom—the culture whose shaping forces sprang from ancient Israel, Greece, and Rome.

Given the consensus of two centuries ago—which regarded man as a sovereign person under God—it was only logical to structure government so as to expand opportunities for the exercise of personal

freedom. The Constitution is clearly designed to maximize each individual's equal right to pursue his own peaceful goals and enjoy the benefits and responsibilities of ownership.

The Declaration of Independence put into words what nearly everyone was thinking, that personal rights and immunities are ours because we are created beings, that is, we manifest a major purpose and intent of this universe. This implies a firm rejection of the alternative, which is to assume that we are the mere end products of natural and social forces, adrift in a meaningless cosmos. For if the universe is meaningless, then no way of life is any more meaningful than any other; in which case Power has no limits.

Our forebears had firm convictions about the purpose of life, and knew that in order to achieve life's

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transcendent end Power must be limited: "Resistance to tyrants is obedience to God," they declared. If life is viewed in these terms, how shall we conceive the proper scope and competence of government? What is its role in society? What functions should we assign to it?

Government is the power structure of a society. This is the first and most important fact about the political agency, that it has the legal authority to coerce. The second thing is to inquire whether the power wielded by government is self-sprung, or delegated by a more comprehensive authority than the merely political. Does government rule autonomously or by divine right; or is the real power located elsewhere and merely loaned to government? The Constitution is clear on this point; the power is in the people to lay down the laws which Power must obey. They set it up; they tell it what to do.

"We, the People of the United States," reads the Preamble, "do ordain and establish this Constitution for the United States of America."

### Specific Limitations

The people empower an agency to do certain things for them as a nation, but if we isolate the provisions they laid down to limit government the prevailing intent or consensus which made the Constitution its political tool becomes clearer.

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. *Amendment X*

The people, furthermore, possess a body of rights by native endowment above and beyond those mentioned in the Constitution.

The enumeration in the Constitution of certain rights, shall not be construed to deny or disparage others retained by the people. *Amendment IX*

These sovereign people shall be free to worship, speak, and publish freely.

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof.

*Amendment I*

Congress shall make no law . . . abridging the freedom of speech.

*Amendment I*

Congress shall make no law . . . abridging the freedom . . . of the press.

*Amendment I*

Voluntary association is the corollary of individual liberty, and this is emphasized, as well as the right of petition.

Congress shall make no law . . . abridging . . . the right of the people peaceably to assemble. *Amendment I*

Congress shall make no law abridging . . . the right of the people . . . to petition the Government for a redress of grievances. *Amendment I*

The old world divisions of mankind



into castes and orders of rank are to be no more.

No title of nobility shall be granted by the United States. *Article I, 9*

Every citizen shall have a right to participate in the processes by which the nation is governed; and, should he desire to run for public office he shall not be put to a creedal test.

The right of the citizens of the United States to vote shall not be denied or abridged. . . .

*Amendments XV and XIX*

No religious test shall ever be required as a qualification to any office or public trust under the United States.

*Article VI*

### **Freedom to Trade; No Special Privilege**

Commerce makes for a free and prosperous people, so restraints on trade shall be removed.

No tax or duty shall be laid on articles exported from any State. . . . *Article I, 9*

No preference shall be given by any regulation of commerce or revenue to the ports of one State over those of another. *Article I, 9*

Progressive taxation violates the principle of equal treatment under the law—penalizes ability, and lowers productivity, so it is forbidden.

No capitation, or other direct, tax shall be laid, unless in proportion to the census. . . . *Article I, 9*

The public treasury shall be inviolate; government shall not confer economic privilege on some at the expense of others.

No money shall be drawn from the Treasury, but in consequence of appropriations made by law. *Article I, 9*

Personal privacy shall be respected and jealously guarded.

The right of the people to be secure in their persons, houses, papers, and effects . . . shall not be violated.

*Amendment IV*

Conflict is a built-in feature of human action, and when collisions of interest do occur in society, the rights of the individual must be maintained.

No person shall . . . be deprived of life, liberty, or property, without due process of law. *Amendment V*

Nor shall private property be taken for public use without just compensation.

*Amendment V*

### **Strings on the Military**

In some nations, the civilian life is a mere appendage to the military. This will not happen here because civilians control the purse strings.

No appropriation of money (to raise and support military and naval forces) shall be for a longer term than two years. *Article I, 8*

As a further safeguard against any future militarization of this nation, the civilian sector must have the means for defending itself.

The right of the people to keep and bear arms, shall not be infringed.

*Amendment II*

In some countries, criminal proceedings are used to entrap citizens, whose guilt is assumed; the burden of proof is on them to show their innocence. Here, the innocence of the accused is assumed, until his guilt is proved. The law shall not reach backward to designate as criminal an action which until then was innocent.

No . . . *ex post facto* law shall be passed.

*Article I, 9*

There shall be no Star Chamber proceedings.

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury.

*Amendment V*

## Protecting the Accused

The accused is protected against illegal imprisonment, and must be informed of the charges against him.

The privilege of the writ of *habeas corpus* shall not be suspended.

*Article I, 9*

Punishment shall fit the crime; it shall not mean extinction of civil rights, forfeiture of property, or penalties against kin.

No bill of attainder . . . shall be passed.

*Article I, 9*

The accused is entitled to be tried by his peers.

. . . the right of trial by jury shall be preserved.

*Amendment VII*

There is to be no forced self-incrimination.

Nor shall [he] be compelled in any criminal case to be a witness against himself.

*Amendment V*

The rights of the accused are summarized:

1. . . . a speedy and public trial, by an impartial jury;
2. Within the district wherein the crime shall have been committed;
3. . . . to be informed of the nature and cause of the accusation;
4. . . . to be confronted with the witnesses against him;
5. . . . to have compulsory process for obtaining witnesses in his favor;
6. . . . and to have the assistance of counsel for his defense.

*Amendment VI*

Even when found guilty, the accused is protected.

1. Excessive bail shall not be required;
2. Nor excessive fines imposed;
3. Nor cruel and unusual punishments inflicted.

*Amendment VIII*

## Treason

Treason is a crime against the nation, so serious that it must be defined with special care.

Treason against the United States, shall consist only in levying war against them, or in adhering to their enemies, giving them aid and comfort.

*Article III, 3*

The person judged guilty of treason is personally responsible for his crime, and therefore his family and kin shall not be punished.

No attainer of treason shall work corruption of blood. *Article III, 3*

Impeachment is a special case.

The Senate shall have the sole power to try all impeachments . . . and no person shall be convicted without the concurrence of two-thirds of the members present.

Judgment . . . shall not extend further than to removal from office, and disqualification to hold any office of honor, trust or profit under the United States. *Article I, 3*

A blind spot in the original Constitution is corrected.

Neither slavery, nor involuntary servitude, except as punishment for crime . . . *Amendment XIII*

No state shall . . . deny to any person within its jurisdiction the equal protection of the laws. *Amendment XIV*

The separate states are not wholly sovereign.

No state shall enter into any treaty . . . coin money . . . pass any law impairing the obligation of contracts. *Article I, 10*

### The Method of Freedom

There is a strong penchant in human nature which impels people who feel strongly about some-

thing—a good cause, say—to group their forces and use the power of government to fasten their panacea on those they've been unable to persuade. The Constitution is a prime example of the limitations placed upon governmental power so that people with a cause to advance must resort to education, persuasion, and example only. This is the method of freedom, and a people committed to the method of freedom find the Constitution still an apt instrument for structuring a society which maximizes freedom and opportunity for all persons. It was designed to establish a national government internally controlled by checks and balances between the separate powers. And government was to be further limited by the federal structure itself, in which the centripetal power of Washington was to be offset by the centrifugal powers of the separate states. It was not a perfect document, but it carried the means of its own correction, and it did embody the consensus of the people for whom freedom was the prime political good. It was workable. And it will work again whenever a significant number of people have the force of intellect to comprehend sound ideas, and the force of character to make them prevail. ☉

# BEYOND FAILURE:

## *How to Cure a Neurotic Society*

FRANK GOBLE, author of *Beyond Failure: How to Cure a Neurotic Society* (Caroline House Books, Green Hill Publishers, Inc., Ottawa, Illinois 61350, \$10, foreword by Henry Hazlitt), has a great vision. He wants to establish what he calls a People's Project, a "national mobilization of resources to solve human problems using the same approach that placed astronauts on the moon." The ideas which he hopes to disseminate are based on the so-called Third Force psychology of Dr. Abraham Maslow, who revolted against both Freudianism and Behaviorism on the ground that they are "cripple philosophies" which ignore whole stretches of human history and endeavor. What Mr. Goble has to say about the "cripple philosophies" is perfectly true, but

his theory that one can apply the moon-shot approach to the solution of social problems ignores a host of difficulties. History is always a ragged process, and great changes never come about overnight.

Putting men on the moon was a purely physical process. Once the money had been approved to carry it out, a "task force" approach became feasible. The problem was to provide astronauts with oxygen to breathe and food and water to sustain themselves while riding a ballistic arc to a celestial destination. The technology of rocket-launching was already in place when the task force tackled its mission. The personnel was ready: World War II had produced a resourceful air force whose adventurous pilots were yearning for something challenging to do. The

rest was simple, and its accomplishment involved little controversy once it had been accepted as a national objective. Whether people should have been taxed for the job is, of course, another story. It was easy, however, compared to engineering a big change in society.

### **Some Vital Adjustments as Prelude to Reform**

Before a task force could be assembled to rout the devils of Freud and Behaviorist John B. Watson, not to mention B. F. Skinner, and to re-establish the Natural Law ideas of our Founding Fathers in the schools, a political sea-change of massive proportions would have to be brought about. The National Education Association would have to be deprived of its grip on American teachers. The big labor bosses would have to accept a formula for relating wage-increase demands to a well-understood productivity standard. Congress would have to withdraw subsidies from a thousand angry pressure groups. And our Washington bureaucrats would have to abandon the Nanny approach to the institutions they are supposed to regulate. As for regulation itself, it would have to be dispensed with, save in the few clear instances where the public health is involved.

Meanwhile, our educators would have to rehabilitate the American Ethic. They would have to begin

teaching history again. Naturally, all of this would involve skirmishes on a thousand fronts, not a single dedication to a moon-shot-type "people's project." Mr. Goble is faced with the problem of setting in motion a Fabianism-in-reverse on a wide front before he can hope to see a final victory for what he calls Responsibility Theory.

When he desists from his moon-shot and Manhattan Project analogies, Mr. Goble talks eminent and inspiring common sense. His book is first-rate analysis. As he says, Freud erred by confusing neurotics with normal people: not everybody is bedeviled by aggressive instincts or is helpless to control his libido. According to Richard LaPiere, a Stanford sociologist, the Freudian ethic resulted in the idea "that man cannot and should not be expected to be provident, self-reliant, or venturesome, and that he must and should be supported, protected, socially maintained." The American Ethic, as defined by the Founding Fathers, had entirely opposite presuppositions, and it worked for several generations before Freud was ever heard of in this country.

### **"Responsibility Theory"**

The Maslow-Goble Third Force idea rejects Freud and the anti-free will Behaviorists in favor of Responsibility Theory which assumes that

human babies are born with socially constructive instincts that are conducive to the survival of their species unless they are mistaught by permissive theorists to expect to have things handed to them on a platter.

It is permissiveness, according to Goble, that has ruined our educational system. Where there is no truth, anything goes. The idea that science must be value-free or value-neutral has resulted in a preoccupation with averages. The "well-adjusted person" won't quarrel with the average. The well-developed person, on the other hand, will reject the idea that he must settle for mediocrity. He will insist on having values of his own. What our educational system should do, according to Maslow-Goble Responsibility Theory, is to inculcate the idea not of "adjustment," but of "self-actualization," which is described as "the full use and exploitation of talents, capabilities, potentialities." Instead of studying the worst of humanity, as the Freudians do, Responsibility Theory would concentrate on "the less than one percent of society that had achieved self-actualization." Dr. Maslow preferred to have his students read about "peak experiences" in the lives of heroes such as Lincoln, Jefferson, William James, Albert Schweitzer, Jane Addams and, oddly, Eleanor Roosevelt.

### **Character Education**

There are the elements for a good Fabianism-in-reverse in the U.S., and Mr. Goble mentions a few. He tells about the Character Education Projects sponsored by the American Institute for Character Education in San Antonio, Texas. One of these projects, at Public School 63 in Indianapolis, Indiana, has been active for six years and has restored both school and individual pride while reducing vandalism to a minimum.

Such projects would have a bigger chance in private schools, where there would be less apathy to overcome, but Mr. Goble presumably doesn't want to get into the public-versus-private school fight. He wants to work through "existing institutions." He hopes to see a non-profit People's Project Corporation formed to push his ideas. The Corporation, by "mass-marketing" educational and motivational programs to existing institutions whether public or private, would, he thinks, act as a catalytic agent to reduce costs of government, inflation, unemployment, crime, drug abuse, illegitimacy, welfare rolls and "other destructive problems."

It is a grand idea, but since there aren't enough Gobles to go around, wouldn't it be more realistic to take a one-community-at-a-time approach? After all, nothing succeeds like one good example.

## THREE NEW BOOKS by Ludwig von Mises

*Reviewed by Henry Hazlitt*

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### NOTES AND RECOLLECTIONS

by Ludwig von Mises  
(Libertarian Press, South  
Holland, Illinois)  
181 pages ■ \$9.95

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WHEN Ludwig von Mises died on October 10, 1973, at the age of 92, even his most devoted readers, and those privileged to know him personally, assumed that everything he had written, in German or English, had already been published. But his widow Margit now reveals that immediately after they emigrated to this country in August 1940, Mises set to work on a manuscript that he turned over to her at the end of the year, with the simple instructions to "take good care of it." It was not until some time after his death, thirty-three years later, that she remembered it. It turned out to be the present remarkable combination of autobiography and critique of the intellectual milieu in Mises' native Austria in the years when he was growing up.

He was "devouring" articles on history when he was seven years old. When he graduated from high school he decided to study law. But he was also reading in economics. In the German-speaking world Schmoller was then "adored as the great master on 'political economy.'" But when Mises was still in high school, he tells us, he "noticed a contradiction in the position of the Schmoller circle."

When he entered the university he, too, he confesses, "was a thorough statist. But in contrast to my fellow students I was consciously anti-Marxian. . . . When I finally engaged in an intensive study of the important works of Marx, Engels, and Lassalle, I was provoked to contradict them on every page. It seemed incomprehensible to me that this garbled Hegelianism could exert such an enormous influence."

Yet he continued to be an ardent interventionist and "reformer" until one of his professors induced him to research housing conditions and another suggested he study the legal

changes regarding domestic servants. "It then dawned on me that all real improvements in the condition of the working classes were the result of capitalism; and that social laws frequently brought about the very opposite of what the legislation was intended to achieve."

In 1913 Mises was admitted to the faculty of law at the University of Vienna as an unsalaried lecturer, and in 1918 he received the title of Associate Professor. But that was as far as he was destined to go there. "A university professorship was closed for me," he writes: "The universities were searching for interventionists and socialists."

He did receive a position in the Vienna Chamber of Commerce, however, and from there he began to exert his real influence. At his office, every two weeks, he conducted a small seminar consisting of 20 to 25 students. It was from this small group that such famous economists were to emerge as F. A. Hayek, the Nobel laureate, Gottfried Haberler, Fritz Machlup, Oskar Morgenstern, and Eric Voegelin.

### **The "Austrian School"**

The great intellectual influences in Mises' own development were, of course, the founders of the "Austrian school," Carl Menger and Eugen von Boehm-Bawerk. Mises arrived too late at the University of Vienna to have Menger as a teacher,

but he recalls that around Christmas, 1903, he read Menger's *Principles of Economics* for the first time: "It was the reading of this book that made an 'economist' of me." Fortunately, Mises was able to attend the seminars of the great Boehm-Bawerk.

Mises' own outstanding contributions included his work on money, which finally unified monetary theory with economic theory in general, his demonstration that socialism must fail because it cannot solve the problem of "economic calculation," and his recognition that economics is merely a part, though by far the greater part, of a wider science of Human Action. He was beyond question the foremost economist of his generation.

Yet this is in the main a sad book. As Mises matured intellectually, he came to recognize that Austrian thought and culture were already in decline. Menger and Boehm-Bawerk were still alive; but they were being succeeded by mediocrities who failed to grasp their revolutionary insights. Menger was "discouraged" and "silenced." "The evening of Boehm-Bawerk's life was darkened by his fears for the future of Austria and its culture." He died a few months after the outbreak of World War I. Mises got the news when he was with his artillery battery at the front.

There was more misfortune to



come. Mises lived to see the rise of Hitler. Driven from Vienna by the threat of a Nazi takeover, he spent six comparatively happy years as a professor at the Graduate Institute of International Studies in Geneva. But the outbreak of World War II made it seem to him once more advisable to emigrate, this time to the United States, in August 1940. In the months when he was writing the present book, he had no knowledge of the future he would have in his new country.

That future too, in its early years, was to prove full of anxiety and difficulties. With the help of American friends, he was finally, in 1945, appointed Visiting Professor at the Graduate School of Business Administration of New York University. Even then his salary did not come from the university's own general funds, but had to be provided by friends and foundations.

Some of us may regret that Mises' great personal reticence kept him from telling more about his early childhood and his emotional life, but we can still count ourselves fortunate to have this important addition to his legacy.

The book is preceded by the short Foreword by Margit von Mises, and followed by an admirable Postscript of thirty pages, describing Mises' later years and works, by his friend and student, and translator of this volume, Professor Hans F. Sennholz.

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## A CRITIQUE OF INTERVENTIONISM

by Ludwig von Mises

(Arlington House, New Rochelle, New York)

164 pages ■ \$8.95

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Essays collected in *A Critique of Interventionism* were written in the early 1920's, and published in German in 1929. They are now issued for the first time in an English translation by Professor Sennholz. The English title almost exactly follows the German—*Kritik des Interventionismus*.

The American reader familiar with Mises' other work will find no ideological surprises. But what will probably impress him most is precisely this—that as early as the mid-1920's Mises' economic philosophy, and his main conclusions, were already formed. He was astonishingly immune from the then almost universal fashion in respectable economic circles, which rejected both laissez-faire capitalism and outright socialism, in favor of a so-called "middle road," which accepted only qualified property rights, subject to overriding government interventions and controls.

In the 1920's Mises was not only keeping abreast of all the major output on economics in Europe, but paying tribute to the contributions

of such American writers as John Bates Clark, Taussig, Fetter and Davenport. But he had little patience with the work of the self-styled American Institutionalists and he was unsparing, for example, in his dissection of the fallacies of such advocates of "social control" as John Maurice Clark.

The main theme of this book, as its title makes clear, is not only the needlessness, but the immense harm done by government intervention in economic affairs. He defines intervention as "a limited order by a social authority forcing the owners of the means of production and entrepreneurs to employ their means in a different manner than they otherwise would." More briefly, he defines interventionism as "the hampered market order." And he goes on to show why, in the long run, it can never achieve the objectives which the authorities aim to achieve.

All interventions consist of a prohibition or compulsion or a combination of both. Among the outstanding examples are price controls and wage controls. What are usually prescribed are price ceilings or minimum wages.

### **Price Controls, and Where They Lead**

In dealing with price ceilings, Mises begins by pointing out that the constellation of prices at any

time is not haphazard or accidental, but has been determined precisely—or at least within narrow limits—by the interrelations of supply, demand, costs, and similar factors. But those who believe that the formation of prices is purely arbitrary easily arrive at the conclusion that they should be fixed by external regulation.

When prices are held down by government edict, however, two results inevitably follow. More of the price-fixed goods are bought, and less are produced. To limit consumption, the government must resort to rationing. To restore profit margins and production, it must fix the price also of raw materials, and eventually wage rates, and force businessmen and workers to produce and labor at these prices.

In short, the government must proceed step by step to comprehensive control over labor and production. But this was not what it started out to do. It wanted the buyers to enjoy the goods at lower prices, not to deprive them of the opportunity to buy the goods at all.

When, on the other hand, government tries to fix minimum wages, it forces an increase in costs of production and also in prices. Either profit margins are wiped out or fewer goods are sold, and as a result workers are laid off. If the laid-off workers are then paid unemployment compensation, the government

creates a permanent body of unemployed.

In addition to interventionism properly so called, one or two of the essays in this book discuss such topics as socialism, Marxism, anti-Marxism, and the nationalization of credit. But the reasoning throughout leads to the conclusion that interventionism must disorganize production, and that in the long run there is only one alternative for economic organization: either capitalism or socialism. "There is no third road."

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### ON THE MANIPULATION OF MONEY AND CREDIT

by Ludwig von Mises

(Free Market Books, Dobbs Ferry, New York)

296 pages ■ \$14.00

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We come now to the volume *On the Manipulation of Money and Credit*. In 1912 Mises published in German the first edition of *The Theory of Money and Credit*. There he first developed what has since become known as the "Austrian" theory of the trade cycle. In 1928, he elaborated and perfected this theory in an essay of more than 100 pages.

This essay is the main single item now for the first time translated into English and presented together with three other newly translated items.

These are an article on "Stabilization of the Monetary Unit" (1923), one on "Causes of the Monetary Crisis" (1931), and one published in 1933 on the then existing state of business cycle research. The translations are by Bettina Bien Greaves, and the book is edited with an Introduction and an Epilogue by Percy L. Greaves, Jr.

Readers sufficiently acquainted with the work of Mises that has hitherto been available in English will already be familiar with the general outline of his business cycle theory. Even under a (fractional reserve) gold standard, governments and central banks permit or encourage an artificial lowering of bank interest rates. This stimulates the demand for bank loans beyond the amount of real savings available for lending. The increasing demand for bank loans is then met by inflationary increases in the quantity of money and credit. The first recipients of the newly-created funds use them to launch or expand business ventures for which the required real factors of production must be withdrawn from the particular pattern of production that would otherwise have been preferred by consumers. In other words, the pattern of production becomes distorted and misdirected, and increasingly so the longer the credit expansion continues, until the boom ends in an inevitable bust and depression.

Mises elaborated his trade cycle theory both in subsequent editions of *The Theory of Money and Credit* (e.g., 1953) and in *Human Action* (1949). He also presented elsewhere much of the substance of the other papers translated in this volume. Nevertheless, Mises never repeated himself mechanically or by rote. Whenever he came back to the same problem he addressed it afresh, almost as if he were solving it for the first time. As a result each exposition threw its own special illumination on the problem, or supplied some connecting link that his other expositions may have omitted to make quite so explicit or clear. This the present trade cycle essay notably does. Consequently we owe the present translator and editor our gratitude for making these important contributions at last available in English.

\* \* \*

In spite of his great gifts for exposition, Mises' contributions were much misunderstood during his lifetime, and are still often misunderstood today. A recent example is an article on Wilhelm Roepke by Patrick M. Boarman in the Autumn 1977 issue of *The University Bookman*. Roepke, writes Boarman at one point, "remembered von Mises saying that if only the principles of free trade had been followed from the beginning, World War II might

never have happened. I don't remember Roepke's exact reply to this, but he was, in effect, struck dumb. And he remarked to me that it was incredible that anyone with a fair knowledge of German or of European history could reduce the German question—the darkest and most sombre question of the age, with myriad roots reaching back hundreds of years—to a mere set of economic arrangements."

Yet Mises was right. If free trade were a sort of isolated accident, Roepke might have been warranted in being "struck dumb." But free trade is a result of a state of public opinion within the country that has adopted it. It means that the people generally recognize the advantages of international trade (particularly of imports) and recognize equally the advantages of international cooperation. In such an atmosphere the fanatic and belligerent nationalism that leads to war is very unlikely to exist.

To resume the quotation from Boarman: "For Roepke, this kind of economic determinism, though employed in defense of capitalism, is just as fallacious as the Marxian version of economic determinism, directed to the justification of the dialectic."

Equating Mises with Marx is something new. Mises was merely reasoning from cause to effect. Only in this sense were his remarks "de-

terministic." But all science is "deterministic" in this sense. Marx's economic determinism was of a different sort. It was mystical. It was a one-way determinism in which the "material productive forces" determined everything else—even the ideology of the people—but it was itself not explained by any preceding cause. As Mises himself once pointed out—for he was, among other things, Marx's most devastating critic—"It never seems to have occurred to Marx that the productive forces are themselves a product of human thought, so that one merely moves in a circle when one tries to derive thought from them." ④

#### Editor's Note:

Each of the above three volumes is available, at prices listed, from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533

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### IT'S NO SIN TO BE RICH: A DEFENSE OF CAPITALISM

by William Davis

(Thomas Nelson, Inc., 407 Seventh  
Ave., S., Nashville, Tenn. 37202)

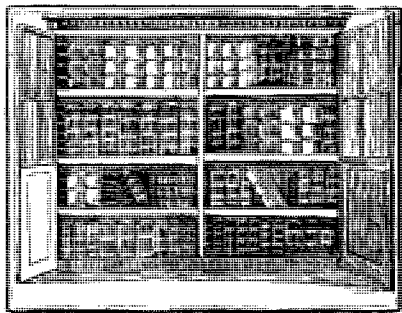
264 pages ■ \$8.95

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*Reviewed by David A. Pietrusza*

WILLIAM DAVIS is well known in the United Kingdom as an influential financial editor and columnist and as the sprightly editor-in-chief of the famed humor magazine, *Punch*. He combines economic expertise with an eye for the absurd to provide a self-confident, breezy, often anecdotal look at modern economic thought, focusing on the prejudices which bias the public attitude against achievement, success, and private profit in business.

Ironically enough, he opens his counterattack by quoting Marx himself on the value of the capitalist in history: "The bourgeoisie 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 . . . the bourgeoisie . . . draws all nations . . . into . . . civilization . . . it has created enormous cities . . . and thus rescued a considerable part of the population from the idiocy of rural



life . . . the bourgeoisie, during its rule of scarce one hundred years, has created more colossal productive forces than have all the preceding generations together."

Davis rips apart the myth of worsening conditions at the beginnings of the Industrial Revolution, dissects the glaringly inaccurate predictions of Marx and Engels in regard to the inevitable crumbling of capitalism, scores the results of Marxist theorizing in both its Communist and Socialist offshoots, and even ventures so far as to heartily defend the nineteenth-century Captains of Industry that today are popularly derided as "Robber Barons."

In most countries of the world today business is under attack; it must propitiate the politically powerful in order to survive. Blackmailed by officials, it pays protection money and is accused of bribery. Davis does not excuse or condone bribery, but merely describes the situation in which certain businessmen find themselves. He quotes an oil company executive as saying, "I would like to ask some of the people who are becoming close to sanctimonious humbugs just what they would do if they had two hundred million dollars invested in a country, and a politician, with a death warrant in his pocket, came along and said, 'give me ten million or else'—and the 'or else' can take

several forms. Would they pay it or would they refuse to pay it? And if they did pay, would they say it was a bribe or would they not call it by its proper name—extortion?"

Then there is the menace of unionism in Davis' Britain. England's labor movement fanatically attempts to wring the last remaining shilling out of that nation's industrial establishment, while disclaiming any responsibility for the country's economic health or even its survival. Through compulsory unionism, big labor's grip on even the highly-individualistic profession of journalism grows more vise-like every day. Strikes have shut down the printing trades and thus endangered press freedoms: but also, incredibly, unions have gained control of access into the reportorial and editorial fields themselves.

"An eighteen-year-old beginner," says Davis, "however talented, now has little or no chance of joining a national newspaper. The closed-shop system, as applied in the seventies, deliberately prevents many potentially good journalists from getting into the profession—and keeps many bad ones in it. It also presents a quite genuine threat to the freedom of the press. It is intolerable that editors should no longer be permitted to employ the best available talent and equally intolerable that the opinions of journalists—and cartoonists—should be subject to the

censorship of trade-union militants.”

Like an efficient and personable tour guide, Davis touches all major points of interest, provides new insights, and yet maintains a leisurely and amiable pace. *It's No Sin To Be Rich* provides a sturdy defense of the diversity, prosperity, and freedom that a market economy makes possible.

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### THE PEOPLE SHAPERS

by Vance Packard

(Little, Brown & Company, 200 West St., Waltham, Mass. 02154, 1977)

398 pages ■ \$12.50

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*Reviewed by Thomas L. Johnson*

In order to win a battle one must know the enemy and understand his tactics. This is just as true of the battle for freedom as for any other struggle. This book describes “the enemy’s” various techniques of people-control: Skinnerian behavioral conditioning, brainwashing and reprogramming, mood managing, hypnosis, imprinting, personality altering via brain surgery or electric shock, and others. A well-known psychologist is quoted: “We can choose to use our

growing knowledge to enslave people in ways never dreamed of before, depersonalizing them, controlling them by means so carefully selected that they will perhaps never be aware of their loss of personhood.” It is a startling and frightening account.

Some of these techniques are already in use, to a far greater extent than generally realized. Packard cites *Science Digest* as his authority for saying that an estimated 500,000 to 2,000,000 school children have been put on amphetamines or Ritalin in order to drug these children into a more passive state. And “in some cases, there appears to have been a clear element of coercion: threats to hold back a child or put him in some class with a disabled label” if parents refused to allow him to take the recommended drug.

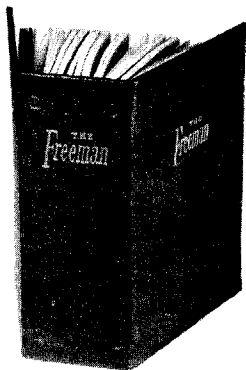
Packard reminds his readers that schools are institutions of government and then asks: “Are schools in general exerting, however subtly, any kind of governmental pressure to get children on behavior-modifying drugs?” Good question, and one which would be answered in the affirmative by certain parents who are currently involved in a lawsuit in which they contend that, for some children, the taking of Ritalin was made a condition of attending public school.

The author goes on to describe forced drugging in other societal in-

stitutions such as prisons, mental institutions, homes for the aged, and the like.

Part II of *The People Shapers* discusses the many and varied techniques, mainly biological, which are being used now or will be used in the near future in order to reshape man. This section reads like science fiction except for the fact that it reveals many possibilities, such as that of cloning man or resetting his biological clocks, that are on the verge of happening.

Packard ends his enlightening, thought provoking, and sometimes shocking book by discussing some new trends that can enhance individual self-direction, and how it may be possible to control the would-be controllers. One may not agree with some of his suggestions for improvement or for safeguarding individual rights, but the reader is certainly prodded into thinking about many difficult and serious matters that every believer in liberty will want to ponder. ⊕



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VOL. 28, NO. 5 • MAY 1978

- The Free Lunch Myth** **E. C. Pasour, Jr.** 259  
Why the individual should beware of all offerings of "free lunches."
- Walking into a Trap** **Gary North** 265  
How business and professional groups are baited to become victims of regulations and control.
- Inflation in One Page** **Henry Hazlitt** 276  
Printing money to cover government deficits is curable: slash spending to balance the budget.
- World in the Grip of an Idea**  
**17. Sweden: Tightening the Screws** **Clarence B. Carson** 278  
Socialism operates under the cloak of democracy to undermine the freedom of the individual.
- Risk and Profit versus Security** **Kenneth McDonald** 291  
The search for security gives rise to taxes and drives away the risk which accompanies creativity.
- Government Regulation and Business Management** **John Semmens** 297  
The State's invasion of managerial prerogatives has occurred on all fronts.
- The Idea of Equality in America** **L. John Van Til** 303  
That every man shall have an equal chance—that every man shall be free to become as unequal as he can.
- Book Reviews:** **318**  
"The Future That Doesn't Work: Social Democracy's Failures in Britain" edited by R. Emmett Tyrrell, Jr.

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# The Free Lunch Myth



THE conventional wisdom about scarcity has changed dramatically in recent years. Only a few years ago, a fashionable view held that we had reached or were nearing the end of the age of scarcity. According to this view, popularized by Professor Galbraith, our affluent society was approaching a time when all our "basic needs" could be met. Today, the pendulum has swung in the opposite direction. A series of events including the "environmental crisis," the "energy crisis," and the "world hunger crisis" have made clear to most people that scarcity is and will remain a fact of life. Governor Brown of California describes our era as an "age of limits."

Dr. Pasour is Professor of Economics at North Carolina State University at Raleigh.

Although the public conception of scarcity may change, scarcity is a basic enduring reality and an inherent fact of life. Every age is and must be an age of scarcity. Scarcity of any good or service means that it has an opportunity cost. That is, in order to obtain more of any good or service other goods or services must be given up.

Scarcity is a fact of life for individuals as well as governments. Yet, in spite of ample evidence that all useful goods and services involve a cost, the myth persists that "free lunches" are attainable. The economic concept "free lunch" means that an individual or group can be provided a good or service at no cost to the individual receiving the benefit or to anyone else. Scarcity means

that the "free lunch" is and must remain an illusion.

### **Consumerism and the Free Lunch**

The "free lunch" myth has been responsible for much of the "consumer" and environmental legislation of recent years. Ralph Nader and other consumer advocates led us to believe that automobiles could be made safer at little or no cost to the consumer. The results of this myth are now apparent, being reflected in higher auto costs. The mandatory air bag requirement when implemented will further increase the price of a new car by several hundred dollars.

The purported "free lunch" in the case of mandated safety regulations has been found to be quite expensive. Some people may prefer to pay a higher price as a way of reducing risk. More important, however, is that for most of us the supposedly "free lunches" turn out to be entrees which we didn't order and don't even wish to eat when served! Auto air bags, seat belts, shoulder harness and the interlock safety system are good examples. Public reaction against the interlock system for seatbelts was such that Congress repealed this safety requirement.

Much of the support for consumer safety legislation of recent years has been based on a lack of recognition by the public about the ultimate incidence of the legislation.

People will desire to reduce risk as long as the expected benefits exceed the costs. Public support for safer automobiles, drugs, lawn mowers, and the like has been overstated where consumers are led to believe that safety can be increased at no cost to them. Politicians contribute to this confusion with demagogic statements that any relaxation in a safety standard is a "sellout" to the industry involved, that manufacturers should always be responsible for safety in the use of products sold, that only drugs which are completely safe should be sold, and so on. Implicit in such rhetoric is the "free lunch" myth that risk can be reduced without cost to consumers.

### **Pollution and the Free Lunch**

The "free lunch" myth is also responsible for much of the impetus behind the environmental movement. We are told that clean water (or clean air) is "priceless" but we are not told what the costs will be of obtaining the clean water (or clean air). The so called "Muskie clean water bill" of 1972 declared a national goal to end the discharge of pollutants into the nation's waterways by 1985. This amounts to a national goal to achieve a zero level of water pollution. The cost of attaining such a standard, even if technically possible, would be astronomical.

In this case, the "free lunch" myth

takes a slightly different form. The consumer is misled into thinking that a good or service will be provided free to him at the expense of the industries providing consumer goods and services. If the apparent cost is less than the actual cost, demand will be overstated. Indeed, the fact that costs to the public were perceived to be unrealistically low is almost certain to have been responsible for much of the public support in the case of the Muskie clean water bill.

### **Excess Profits and the Free Lunch**

Another interesting variant of the "free lunch" myth arises in the case of proposals to roll back oil prices or to tax "excess profits" of the oil industry. As President Carter, Senator Jackson and other politicians castigate the excess ("obscene") profits of the oil industry, the erroneous idea is promoted that profits of the oil industry can be taxed away without affecting the domestic supply of petroleum products. In other words, the public is led to believe that there is a "free lunch" involved in the sense that oil prices can be "rolled back" or profits reduced without affecting producer incentives and long-run oil production. (It isn't denied, of course, that this would reduce income of the producers.)

Economic theory suggests that roll backs in price or profits will not

affect production only if producers are completely unresponsive to product price (i.e., if supply is perfectly inelastic). The Carter Administration's contention that price ceilings on oil and natural gas will not affect future production is a good example of the idea that production is unrelated to price. Producers of oil and natural gas, however, are similar to producers of other products. They do respond to economic incentives. This means that more oil and natural gas will be produced the higher the price.

Legislation which effectively reduces price (or profits) to producers will inevitably reduce output. If "excess profits" are defined (consistent with the free-lunch myth) as profits which do not affect output, *there are no excess profits*. There are no profits which can be taxed away without affecting future production. Thus, the relevant issue is not whether "excess profits" should be taxed away. Instead, the relevant policy issue concerns *how much* higher taxes or lower prices will affect output both in the short run and in the long run. The "obscene profits" rhetoric obfuscates the basic issues and, indeed, serves to perpetuate the "free lunch" myth.

### **World Hunger and the Free Lunch**

The "free lunch" myth also plays a prominent role in current discussions relating to world hunger and

poverty problems. The free-lunch myth is involved in several ways. A New International Economic Order (NIEO) has been approved by the UN to redistribute income from the United States and other industrial countries to the less developed countries. The NIEO involves a wide range of interventionist schemes ranging from price-raising cartels for major products sold by the less developed countries to increased foreign aid by the developed countries. The NIEO is fundamentally anti-market in mentality and assumes that arbitrarily redistributing income from the West to the less developed countries will have no important effect on production. Yet, there is ample evidence that individuals in the U.S. as well as other countries respond to economic incentives. Thus, there is every reason to expect that action taken to forcefully redistribute income between countries will adversely affect output. There is no "free lunch" involved.

Individuals in the West are encouraged to reduce waste in the use of food, gasoline, electricity and other energy sources. Citizens in the United States and other highly developed countries are told that they should change their life style, reducing consumption to the amount actually "needed." The concept of waste implies that consumption can be reduced without any adverse ef-

fect on consumer welfare, i.e., that there is a "free lunch."

There are two problems with this proposed "free lunch" approach of reducing consumption as a way of alleviating world food problems. First, a reduction in food eaten by a U.S. citizen doesn't mean that more food will be available for the world's hungry people. Even if the food is given as food aid, we can't assume that the effects will be favorable. In some cases, (e.g., Tanzania) food aid permits the government to engage in collectivist social experiments which are a *major cause* of food problems.

### **Need, Waste and the Free Lunch**

The second problem with the approach of reducing our consumption to the amount "needed" is that the concept of "need" is meaningless as a guide to our daily activities. How much beef, housing, gasoline, heating fuel, or clothing do we "need"? We as individuals respond to relative price changes and consume relatively less of those goods whose prices increase. The higher the price, the less of any product we consume—whether it be food, clothing, gasoline, heating fuel, or housing.

The concept "waste" implies that there is some minimum amount of a product which is "needed" regardless of price and that larger amounts of the product provide no additional

satisfaction (i.e., that demand is perfectly inelastic). If this were the case, amounts of the product above this minimum level could be removed at no loss in satisfaction to the consumer and would, in fact, be a "free lunch." Can any of us give up expenditures in food, clothing, travel, and so forth without feeling a loss in satisfaction? It is easy for us to find such "waste" *only* in the consumption habits of *other people!*

The use of the family car provides an interesting example of the impossibility of identifying waste. It is often alleged that the typical motorist wastes gasoline by using the auto more than is "needed." We observe that a neighbor Jones drives his own car to work each day when he could form a car pool; drives his car on short trips when he could walk or ride a bicycle; takes vacation trips out-of-state when vacations could be taken in-state (or at home); and uses the car for a host of other "non-essential" purposes. Yet, there is no basis for us or any other outside observer to conclude that any of these uses of the auto by Jones are "wasteful" in any meaningful sense.

The problem is that the concept "need" has little if any meaning. We, as motorists, respond to relative prices in deciding where to live, how to get to work, where to vacation, and so on. Virtually everything we do could (and would) be done in some

other way if relative costs changed. The attempts to get people to change driving habits are likely to have little effect so long as relative prices remain unchanged. On the other hand, if gasoline prices were to double, no one would have to encourage consumers to economize in the use of gasoline.

### **Conclusion:**

#### **Beware All Free Lunches**

Undoubtedly the world would be a quite different place if the "free lunch" were fact not myth. However, it is a world difficult even to imagine. We would not be constrained by problems of scarcity to the extent that this were, in fact, the case. Then, we could provide more food, more energy, cleaner air, cleaner water, and the like without cost, i.e., without sacrificing anything valuable. In this case, there would be no need for the Sierra Club to lobby for environmental issues, for Senator Hatfield to lobby for the world's hungry, for President Carter's worry about the "energy crisis," or for Ralph Nader to protect us from unsafe cars and other consumer products.

The individual consumer can determine and support the kind of legislation he desires only if he knows the cost of alternative courses of action. A necessary first step is the realization that the "free lunch" idea is a myth. In the energy, envi-

ronmental, and safety areas, a great deal of legislation has been enacted under false pretenses. All such legislation involves increases in cost. Much of this legislation would have not enjoyed public support if the costs had received equal billing with the benefits.

The fact that government frequently enables some people to benefit at the expense of other people is apparent in this age of transfer payments. Yet, the possibility of the use of the state to enrich everyone at the expense of everyone else is no less an illusion today than at the time of Bastiat.

The individual should also be wary of proposals to obtain "free lunches" by reducing "waste." Man-

dated reductions in use of energy sources including gasoline and electricity always involve a cost to the consumer. The consumer who is forced to use less electricity, gasoline or any other good is worse off even though price remains the same. Mandated reductions are fundamentally different from voluntary reductions in use induced by price increases. Rationing through the price system permits much more flexibility in catering to a diversity of individual tastes and circumstances.

In summary, the individual should be skeptical of all "free lunch" proposals. He should be especially wary of those designed for him. Ⓜ

### Conscienceless Coercion

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.

IDEAS ON



LIBERTY



# WALKING INTO A TRAP



*There is some justification at least in the taunt that many of the pretending defenders of "free enterprise" are in fact defenders of privileges and advocates of government activity in their favor rather than opponents of all privilege. In principle the industrial protectionism and government-supported cartels and the agricultural policies of the conservative groups are not different from the proposals for a more far-reaching direction of economic life sponsored by the socialists. It is an illusion when the more conservative interventionists believe that they will be able to confine these government controls to the particular kinds of which they approve. In a democratic society, at any rate, once the principle is admitted that the government undertakes responsibility for the status and posi-*

*tion of particular groups, it is inevitable that this control will be extended to satisfy the aspirations and prejudices of the great masses. There is no hope of a return to a freer system until the leaders of the movement against state control are prepared first to impose upon themselves that discipline of a competitive market which they ask the masses to accept.*

—F. A. Hayek<sup>1</sup>

\* \* \*

The idea that businessmen are strong defenders of the free enterprise system is one which is believed only by those who have never studied the history of private enterprise in the Western, industrial nations. What businessmen are paid to

<sup>1</sup>F. A. Hayek, *Individualism and Economic Order* (University of Chicago Press, [1948] 1963), pp. 107-08. This is taken from Hayek's address to the Mont Pelerin Society in 1947.

worry about is profit. The problem for the survival of a market economy arises when the voters permit or encourage the expansion of government power to such an extent that private businesses can gain short-term profits through the intervention into the competitive market by state officials. Offer the typical businessman the opportunity to escape the constant pressures of market competition, and few of them are able to withstand the temptation. In fact, they are rewarded for taking the step of calling in the civil government.

The government's officials approve, but more to the point, from the point of view of the businessman's understanding of his role, shareholders and new investors also approve, since the favored enterprise is initially blessed with increased earnings per share. The business leader has his decision confirmed by the crucial standards of reference in the market, namely, rising profits and rising share prices on the stock market. No one pays the entrepreneur to be ideologically pure. Almost everyone pays him to turn a profit.

This being the case, those within the government possess an extremely potent device for expanding political power. By a comprehensive program of direct political intervention into the market, government officials can steadily reduce the opposition of

businessmen to the transformation of the market into a bureaucratic, regulated, and even centrally-directed organization. Bureaucracy replaces entrepreneurship as the principal form of economic planning. Bureaucrats can use the time-honored pair of motivational approaches: the carrot and the stick. The carrot is by far the most effective device when dealing with profit-seeking businessmen.

Those individual enterprises that are expected to benefit from some new government program have every short-run financial incentive to promote the intervention, while those whose interests are likely to be affected adversely—rival firms, foreign enterprises, and especially consumers—find it expensive to organize their opposition, since the adverse effects are either not recognized as stemming from the particular government program, or else the potential opponents are scattered over too wide an area to be organized inexpensively. The efforts of the potential short-run beneficiaries are concentrated and immediately profitable; the efforts of the potential losers are dispersed and usually ineffective.

The expansion of political power in the market process has been going on in the West for about a century, at least in the modern form of interventionism, starting with the social security legislation of

Bismarck's Germany in the 1870's. Governments have evolved a strategy by which whole industries or professions are captured by the bureaucratic state. While this strategy is not the only one used, in peacetime it has proven enormously successful. (Nothing, of course, favors political centralization more than war.) I have outlined this strategy by means of the following analogy:

1. Baiting the trap
2. Setting the trap
3. Springing the trap
4. Skinning the victim

#### **Baiting the Trap— Extra-Market Benefits**

The politicians enter an otherwise competitive market situation with an offer to promote certain industrial or professional programs. Taxpayers' money is used to finance this program, but it is rare for the potential short-run beneficiaries to reject the offer on these grounds. Certainly, a majority of those who are to be the recipients of the special favor gladly accept it. They see their goals as being part of the public interest, and they view an offer of government aid as being only natural. They see it as their due. Those who refuse to take the special favor risk lower profits in the immediate future, since competitors in the industry or professional association will take the favor. The general attitude

is this one: "If I don't take it, somebody else will." As a statement of fact, rather than principle, it is absolutely correct. Somebody else will.

There are several possible forms in which the aid may come. Industrial groups may receive *tariff protection*, which is a tax levied on consumers on both sides of a border over which trade had been carried on or over which it might be carried on in the future. Consumers pay higher prices on both sides of the border. There can be no grants of government economic benefits without someone or some group bearing the costs. A tariff is a tax.

For professional groups, another approach is offered. It is usually in the form of *licensing*, which is a grant of monopoly rents to those inside the protected profession. The profession elects representatives who sit on government boards, or who actually make up the whole board. They can police entry into the profession's ranks by unqualified competitors, meaning those who have not passed certain educational and/or skill requirements established by the board. Most professionals believe that such restrictions on entry are entirely natural for the sake of preserving the present-day standards of practice that the majority of the profession accepts. Like the businessmen, they see these benefits as normal, natural, and altogether beneficial to the public. Re-

sult: higher fees and fewer choices.

Another way to buy off almost any industry or professional association is by means of *direct grants of money*. The government may simply buy products from a company. It may establish government research grants. It may subsidize certain industries directly. In the case of the great railroads in the United States which were built in the 1860's and 1870's, the government offered millions of acres of land to the railroad companies as an incentive to begin and complete construction.

Perhaps the most popular form of subsidy is *tax relief*. Certain occupations, companies, or organizations receive tax breaks. In an era of growing taxation, this approach has been one of the most effective; the higher the tax level, the more advantageous is tax exemption. The American oil industry was the recipient of multiple tax breaks until quite recently, and they are still substantial.

All of these special favors are adopted in the name of the general welfare of the public. All of them involve the financial incentives for private individuals and firms to conform themselves to the goals set forth by the sponsoring agency, the government. All of them involve the transfer of wealth from consumers and taxpayers to the beneficiaries. All of them involve a temporary suspension of market forces and a

redirection of those competitive pressures. All of them necessarily involve a reduction of the sovereignty of the recipients, since they become partially dependent on the government for continued benefits.

In short, the bait is most tempting.

### **Setting the Trap— Extra-Market Costs**

The government is a political organization. Its justification is that it is an agency of the popular will, an agent of the public in its political capacity. It is therefore an agency of public defense. The general public is to be protected from adversaries, including domestic adversaries. In a limited-government system, this means that those who use fraud or violence against their neighbors are to be penalized. In modern interventionist states, the concept of public defense is much broader.

The government cannot lawfully make grants of power or money to any group unless it is in the public interest to do so. In short, the state must police those who are subsidized by the state. The money cannot be used exclusively for the benefit of private citizens. The long arm of the law is at the end of the strings attached to every grant of monopoly power or special favoritism. In theory, every dollar spent by the government must be accounted for, to make sure that the public's inter-

est is upheld in each expenditure. The result, among others, is an endless proliferation of forms.

The state grants a particular group special favors. But it cannot do so randomly. It must have a purpose, officially and unofficially. The official purpose is not nearly so important as the unofficial purpose. The official purpose is offered to calm the public (which must finance the grants) and to make sure that the judiciary does not intervene. The unofficial purpose is almost universally this one: *the expansion of political power at the expense of private associations.*

Once the grant has been made, the beneficiaries use it for their purposes. The money is spent. Parkinson's Law takes over: expenditures rise so as to equal income. But expenditures are always difficult to reduce, especially in large, bureaucratic organizations. The firms become used to the higher income. The income becomes part of annual forecasts. Managers expect it to continue. After all, they are all agreed that such subsidies are in the national interest. Would the nation (the politicians) revoke their trust? Never! The organization is hooked. It has become dependent on the continued favors, meaning the continued favor, of the state.

Inevitably, one firm or some individual begins to take advantage of his position. He exercises the

monopoly grant of power which the state provided for him. He charges a bit too much. He starts running a "factory." Or the firm or individual cuts quality. In short, someone actually begins to milk the system.

### **The Patterned Response**

Some of us have become cynical over the years. We have so often seen this pattern, and the government's equally patterned response, that we have been inclined to come to a startling conclusion, namely, that *the government establishes the system in order that some beneficiary will milk it.* That is a primary purpose of the system of government favors.

Once the pattern of "exploitation" is detected by citizens or government officials, not to mention bureaucrats at any level of government, the response is politically inevitable. Someone calls for the government to do something about the unfair use which is being made of the government's trust. Some firm or some professional must be stopped, and stopped now. The industry or guild must be policed. The consumer must receive protection from the unscrupulous.

The industry leaders naturally resent this intrusion into the semi-free market. They resent the fact that someone is milking the system. That person, for one thing, is trying to get more than his "fair share" of the

booty. Also, he is making the government angry. He is threatening the continuation of the subsidy. He is violating professional standards.

This appeal to professional standards is very important. The government knows what appeals to make, and this is a good one. (The industrialist is not nearly so alert to such violations, since the agreed-upon standards are not so clear.) The ethics of the professional association are at stake. They must be defended. Yet it is extremely expensive to enforce standards on a col-league. Friendships are at stake. Careers are at stake. And countersuits are at stake. Yet a small percentage of incompetents (usually said to be about 3 per cent by every representative of the professional association) threaten the semi-autonomy of the group. (There is no real autonomy if the government has granted some sort of favor.)

### **Need for Policing**

The government demands that the industry or professional group police itself. The market as a policeman has been compromised by the original grant of power or money. This compromised policeman—the consumers—cannot enforce its decisions inexpensively, given the government grant. So the government calls on the group to police itself, and it draws up certain standards that should be met. The

“partnership” between government and professionals grows strained. So the industry or professional group elects (or more likely accepts) certain spokesmen who will “work with” the other partner. This supposedly will insure that the interests of the government and the favored group will mesh, and that the group will continue to receive its favors. On this point, I can do no better than to quote Enoch Powell, the former M.P. in Great Britain. He makes quite clear what the industry can expect.

They start more than half-beaten, by the very fact that they are, or claim to be, the spokesmen and representatives. It has been their pride and occupation to “represent” industry to the Government. Yet the safest posture for an industry confronted by Socialism would be not to have an organization or spokesmen at all. Instead of being able to coax, brow-beat or cajole a few “representative” gentlemen into co-operation, the Government would then, unaided and at arm’s length, be obliged to frame and enforce laws to control, manage or expropriate a multitude of separate undertakings—the true picture of private enterprise—with no means of getting at them except the policemen.

Powell is here speaking of an industry which is not on the receiving end of major government favors. If government has the industry on a string, it need not have to resort to the policeman. All it needs to do is to cut off the subsidies, and the whole

industry is put into a financial crisis. The existence of the subsidies calls forth the "industry's spokesmen." And to quote Powell, "As soon as 'our President, Lord So-and-So' is in a position to talk about what such-and-such an industry 'wants' or 'thinks', that industry is on the road to the scaffold. . . . The Association of these, the Federation of those, present just that one neck to the Socialist garrotter."<sup>2</sup> Once the government uses the bureaucratic garrotte to strangle the representative of the industry who stands in place of all the members, there is no way out except to repudiate the compromiser who stuck their collective necks into the garrotte. If they do not pull out their own necks, they will suffer the same fate.

The professional guild is perhaps the most vulnerable, since the very nature of the "bait," namely, a monopoly position based of guild-policed licensure, creates the very policing organization necessary for the government to impose its will at lowest cost. They can be appealed to on the basis of professional standards and the guild's responsibility to a vaguely defined public, irre-

spective of the individual professional's ability to satisfy the needs of specific members of the public.

### **Springing the Trap— Extra-Market Crisis**

More cheaters are discovered. The guild waffles. The cheaters continue to operate. The press scents blood and headlines. Politicians scent blood and votes. When they look into the actual operation of the industry, they find more examples of men or firms that have gouged the public, meaning people who are taking advantage of the very system that the government created—an eminently exploitable system. So the reports of cheating and fraud continue. The *reports* continue, but no prosecutions are begun by the government, since nothing specifically illegal has been detected. The guild is powerless, obviously, for the same reason. This means that the reports are going to continue. The guild will still be under pressure to do something to stop the causes of the reports. Finally, new laws are called for to clean up the industry, since the industry is seemingly incapable of policing itself.

For professional associations, this is a disaster. Members have been led to believe that there are standards of practice within the profession. Yet these reports keep hitting the front pages. Their self-esteem is challenged. They begin to wonder

<sup>2</sup>Enoch Powell, *Freedom and Reality* (London: Batsford, 1969), p. 46. It must be understood that Powell is discussing the traditional response of so-called establishment guilds. He does not deny that breakaway splinters from these established guilds might be able to create a minority resistance on the basis of ideology and long-run self-interest.

what has gone wrong. Maybe the reports are correct. Maybe the government needs to do something—not anything drastic, of course, but enough to clean up the temporary mess and let honest men continue to practice. They miss the point: *the government's task is to alter the practice of the honest men.* The government wants to set all standards and enforce them. There will then be no doubt about who the senior partner is. Bureaucrats want control.

The crisis is not created by the negative reaction of consumers. Businessmen do not find that one morning sales are down 30 per cent because the public has decided to walk away from the fraudulent segments of the industry. Professionals do not find their offices empty for weeks on end. In short, it is not the market which drives home the message to the supposedly crisis-bound industry or profession. The critics come from outside the market, probably from those who seldom use the products or services involved, or if they do, who find the products or services quite adequate in their particular cases. But the crisis is no less real, for the public and even members of the associations perceive it as a crisis. This means that the crisis is real politically. "Politically" is what counts in an era which is socialist or interventionist in its economic outlook.

What about the representatives of

the industry? Will they co-operate? Powell answers straightforwardly:

You bet they will. They are afraid not to. They are afraid of being pilloried by the Government and its political supporters as "unpatriotic" or simply (damning word) "unco-operative." They feel that the eye of the public will be upon them, and they do not like the adjectives which they foresee would be liberally used inside and outside Parliament—and will be, anyhow, before the end of the day. Of course the line of true patriotism would be the opposite to the one they are going to take. It would be to protest, by all means in their power, short of breaking the law, against every kind of error and nonsense as it comes along, and to oppose in their own industry any measure which does not commend itself to their knowledge and experience. But they shrink from this because, although they have no seats to lose and no voters to offend, it takes courage of a special kind—political courage—to outface authority and the popular cry of the hour. These men have commercial courage, and no doubt physical courage too; but facing the political music is something they have neither been trained nor volunteered for. So they play along with the search for an incomes policy, or export incentives, or whatever else it may be.

And, as Powell points out, "The effect is doubly damaging; for it also hamstringing any politicians who *are* prepared to raise their voices in protest." The public thinks it strange that industry representatives have not protested the accusations by the government. Apparently, the lead-



ers approve of the government's policies. "Thus the co-operators effectively expose the flank of the anti-Socialist opposition and compel it to fall back on positions which are better protected."<sup>3</sup> But not much better protected, he might have added.

Once the crisis is admitted to exist by the leaders, though of course on a much reduced scale—3 per cent of our members, not 20 per cent—the battle is pretty well lost. To clean up that 3 per cent, the government will alter the entire foundation of financing, policing, and pricing of the industry's services. The corruption will escalate, but now it will be a government problem, to be met by even more intervention. More laws can be passed, more penalties handed out, more regulations enforced: the government expands its control relentlessly. The trap has been sprung.

### **Skinning the Victims— Extra-Market Bankruptcy**

There are any number of ways that the government can see to it that the former subsidies now become the strait jacket for the former beneficiaries. The most obvious method of control over professional groups is the establishment of government control boards that will enforce standards and price. The government begins to finance

the guild more directly. The former monopoly grant now becomes direct payments. But these payments have no strings attached; they are ropes, or even chains. The government sets fees, allocates equipment, and assigns consumers (clients). The government directs the operation of the association through its captive agents, the profession's representatives. Members of the profession are told what they will be paid, the kind of service to be offered, and the quantity of service to be dispensed.

The government also establishes some sort of quality-control standards. These are enforced by quality-control boards made up of compliant members of the profession and representatives of the public (pressure groups) and the government (bureaucrats). These quality-control boards do exactly that: *control quality*. If quality, meaning cost, starts going up, then they step in and control it. They ration equipment. They set lower standards of care, especially in government hospitals or clinics. They make sure that costs are held down, since the government, not the consumer, is paying the bill. No matter what guild is involved, the government makes sure the "irresponsible quality" is avoided, meaning irresponsibly *high* quality.

The government forces industries to operate at a loss. The classic example in economic history is the

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<sup>3</sup>*Ibid.*, p. 47.

American railroad system. Created by government subsidy, controlled in the name of protecting the consumer, the railroads in the Northeastern part of the U.S., as well as the Midwest, have been strangled to death. The Interstate Commerce Commission was the first Federal regulatory agency in the United States, established in 1887. It was established in the name of protecting the consumer, but as the New Left historian Gabriel Kolko has argued, along with free market economists like Milton Friedman, the result was a freezing out of new competition, since the ICC established rate floors as well as ceilings. So the railroad barons were already in trouble by the late 1880's, despite the millions of dollars in subsidies. The "protection" became a stranglehold, and by the late 1950's, the passenger-carrying railroads were in trouble. By the early 1970's, they were bankrupt. (Long-haul freight railroads are still able to compete.) The government now owns and mismanages many of them (Amtrak, Conrail).

The incomes of the members of the industries and professions that are now directly financed and/or directly policed by the government necessarily fall. Envy is loose in the land. The popular press and television reporters have accomplished their goal. The public will not permit "profiteering." The politicians

will not permit it. Prices, wages, and fees are controlled, and work loads increase. Regulatory agencies each claim a piece of the action, and the multiplication of paperwork is endless. The formerly independent producers, who answered directly to the formerly independent consumers, now answer to a multitude of bureaucrats and enraged customers who detect the collapse of productivity on the part of the now-controlled suppliers. Most suppliers lose, most consumers lose, and a real crisis is produced.

**Conclusion:  
Avoid the Bait,  
Rely on Principle**

The answer, philosophically, is to avoid sniffing at the bait. This must be done on principle. It would help if businessmen understood the chain of events which follows from the acceptance of a government subsidy. Yet even if this chain of events is not understood, men should still be able to recognize a violation of basic moral principle when they see it. They should understand that the coercive power of the state should not be used to benefit one group at the expense of another. Such power is inevitably misused, if not immediately, then ten years or fifty years down the road. The precedent is evil; the results following it will also be evil.

The problem, as indicated by

Hayek's statement which introduced this paper, is that businessmen like the seeming safety of a government-restricted market, at least in the early stages, when they are given some power to set standards and direct production. Businessmen can make very good bureaucrats, too. The market is relentless. It forces men to meet the demands of a fickle public. Businessmen think they can find an escape in some sort of government-

business partnership. That is the grand illusion.

Those who are offered the subsidy must say no very early. There are strings attached to government money or power, and they become chains if the subsidies are allowed to continue. It is easier to say no before the addiction process begins, before costs rise to meet income levels. The longer a violation of principle continues, the more difficult the "withdrawal" process becomes. ☉

### As Government Activity Expands

HISTORY is full of examples of healthy national communities that gradually shriveled up, lost vitality, and perished as the people were bribed by the will-o'-the-wisp of state handouts and fell more and more into the meshes of an all-encompassing bureaucracy.

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. This whole drama of rise, growth, decay, and ultimate fall has been played on many stages in world history, the most dramatic being that of ancient Rome. . . .

Ever higher taxes, an ever-increasing bureaucracy, the growth of an omnipotent state, the paralysis of local initiative, a growing reliance on a faraway central authority that started with some features of the welfare state and ended with full-fledged totalitarianism—here are some very obvious forces making for the decline and fall of Rome. Does it require much exercise of the imagination to see in our own country and our own time some germs, at least, of these ultimately fatal diseases?

WILLIAM HENRY CHAMBERLIN,  
"How State Help Destroys Self-Help"

IDEAS ON



LIBERTY

Henry Hazlitt

# INFLATION in One Page

*A correspondent, heading a group of "Inflation Fighters," recently sent me a one-page typewritten summary of their case against inflation, and asked for my opinion of it. The statement was sincere and well-intentioned, but as with the great bulk of what is being written about inflation, it was confused in both its analysis and its recommendations.*

*I wrote approving his effort to "do something," and approving also his idea of trying to state the cause and cure for inflation on a single page, but suggested the following substitute statement:*

## **Cause and Cure of Inflation**

1. Inflation is an increase in the quantity of money and credit. Its chief consequence is soaring prices. Therefore inflation—if we misuse the term to mean the rising prices themselves—is caused solely by printing more money. For this the government's monetary policies are entirely responsible.
2. The most frequent reason for printing more money is the existence of an unbalanced budget. Unbalanced budgets are caused by extravagant expenditures which the government is unwilling or unable to pay for by raising corresponding tax revenues. The excessive expenditures are mainly the result of government efforts to redistribute wealth and income—in short, to force the productive to support the unproductive. This erodes the working incentives of both the productive and the unproductive.

3. The causes of inflation are not, as so often said, "multiple and complex," but simply the result of printing too much money. There is no such thing as "cost-push" inflation. If, without an increase in the stock of money, wage or other costs are forced up, and producers try to pass these costs along by raising their selling prices, most of them will merely sell fewer goods. The result will be reduced output and loss of jobs. Higher costs can only be passed along in higher selling prices when consumers have more money to pay the higher prices.

4. Price controls cannot stop or slow down inflation. They always do harm. Price controls simply squeeze or wipe out profit margins, disrupt production, and lead to bottlenecks and shortages. All government price and wage control, or even "monitoring," is merely an attempt by the politicians to shift the blame for inflation on to producers and sellers instead of their own monetary policies.

5. Prolonged inflation never "stimulates" the economy. On the contrary, it unbalances, disrupts, and misdirects production and employment. Unemployment is mainly caused by excessive wage rates in some industries, brought about either by extortionate union demands, by minimum wage laws (which keep teenagers and the unskilled out of jobs), or by prolonged and over-generous unemployment insurance.

6. To avoid irreparable damage, the budget must be balanced at the earliest possible moment, and not in some sweet by-and-by. Balance must be brought about by slashing reckless spending, and not by increasing a tax burden that is already undermining incentives and production. ®

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# World in the Grip of an Idea

Clarence B. Carson

## 17. Sweden: Tightening the Screws

THE LOSS of liberty is quite often subtle under evolutionary socialism. So also is the loss of private property, or control over it. Under revolutionary socialism only the purblind can fail to grasp the assault on property and the onset of confinements of the population. The brutality of the attack is too blunt and persistent to escape detection by any except those who resolutely will to ignore it. By contrast, evolution-

ary socialism is intruded in such a way, particularly under long-established parliamentary governments, that its restraints, confinements, and erosions of the ground of liberty and property are not so readily seen.

This is so in part because as the paternal state takes shape the focus is upon benefits to be conferred rather than the price to be paid, both monetary and in individual rights. There is a broader reason than this, however. It is that the population, or a considerable portion of it, has been induced in advance of the measures to accept certain underlying ideas

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

which make the intrusions appear plausible and, perhaps, even inevitable.

One of the leading ideas is that of the desirability of distributive equality. This is joined, of course, with the notion that all should work together in collective harmony for the general good. When these ideas are linked to the belief that government is the instrument by which this should be achieved the way has been prepared for the introduction step by step of socialism.

The mechanism by which evolutionary socialism has been advanced is democracy. Herein lies a paradox. As popular control over government has increased the control by people over their own lives and affairs has declined. The paradox is more apparent than real. That anyone should find it strange that people's control over their lives declines as their participation in government increases is the result of one of the most impressive selling jobs in all of history. In the latter part of the nineteenth and in the twentieth century a tremendous selling of democracy took place. Democracy was advanced as the great cure for the ills of the world: if all peoples of the world would only adopt and practice it, a worldwide prosperity, harmony, and peace would ensue. The massive bloodletting which is now known as World War I was even described as a war

to make the world safe for democracy. Democracy would then, it was claimed, make the world safe from wars.

### **Coincidental Developments**

These ideas gained plausibility from the fact that the development of democracy occurred more or less simultaneously with other developments in the nineteenth century. Such causal connection as the spread of democracy had with these other developments was almost certainly accidental, but it did not appear so at the time. The other nineteenth-century developments to which I allude were constitutionalism, the establishment of individual liberty, the casting off of feudal restrictions and the securing of private property, and the tendency to negotiate agreements among nations rather than going to war to settle disputes. Under these conditions trade expanded greatly, industries developed on an unprecedented scale, population increased dramatically, and prosperity began to become more general than ever before. It was under these conditions that Sweden became an industrial and prosperous country, as noted earlier.

In retrospect, there appears to be little enough reason to connect these developments with the spread of democracy. True, these developments occurred first generally in countries which had representative

or popular government, that is, in Western Europe and America. And, there was undoubtedly a temporal connection between representative government and the other developments. It was this. The thrust to remove feudal and mercantile restrictions, to extend liberty, and to restrain and limit government was generally expressed through parliaments (legislatures, congresses, or whatever they might be called). This was especially so of the elective branches of parliaments. As a result of this, representative government began to be thought of as the champion of liberty.

The connection was temporal, as I have said. For the historical moment, as it were, representative governments curtailed the power of kings and limited government. The foundation of liberty was in constitutionalism which was itself based on the natural law philosophy. The practical defense of liberty lay in the separation of powers within government, a separation that would have the tendency to restrain and limit government. Popular or representative government can, at best, only reflect the prevailing mood among the populace, whatever that may be. If that mood is libertarian, representative government may act upon it; if it is totalitarian, representative government can do little more than be its agent.

Even so, the thrust toward democ-

racy got a tremendous boost from this temporal, and temporary, connection. Champions of democracy pressed to have governments more and more representative, to extend the franchise ever more broadly, and to having all political decisions made on the basis of popular support. The practical effect of this was to concentrate all power in the legislatures and to negate the restraints upon government that rested upon a separation of powers. In limited monarchies, such as Sweden and England, the monarch became more and more limited, as did the hereditary nobility generally, and the representative portions of parliaments triumphed.

### **Democracy Is Mob Rule**

The champions of democracy ignored the fundamental nature of democracy, a wealth of historical experience with it, and a two-thousand-year-old reasoned argument against it. They made it an unquestioned good and a thing to be desired above all else.

Whatever the merits of representative government, they do not extend to a thoroughgoing democracy. It is an ancient insight that democracy is mob rule. True, the mob-rule feature is moderated so long as the populace acts through representatives; but representation is an inhibition on democracy, not a part of its essential character. It was Greek



democracy which sentenced Socrates to exile or death. It was the mob which shouted to Pontius Pilate that Christ should be crucified. It was the Roman mobs who turned their fickle support from one conquering general to another that aided and abetted the horrors of the Roman Empire. "Democratic" New England was the most intolerant locale in the American colonies.

Democratic socialism has attempted to legitimize a modified mob rule. It has done so by attributing to democracy virtues it does not possess and ignoring its implicit vices. If democracy were not modified by representation and rules which hold it in check it would be tyrannical. As it is, it is a compelled conformity, a conformity which takes away individual liberty and intrudes upon private property.

It is ironic that so many intellectuals should have championed social democracy (or democratic socialism or collectivized democracy, whatever describes it best). Modern intellectuals developed an early distaste for social conformity. Ralph Waldo Emerson said that society is at war with every one of its members. His meaning was that society is trying to settle us into a groove—make us conform—that is contrary to what each of us as an individual would wish to be. Society became and remains the villain for many intellectuals. It operates upon the basis of

tradition and bids those within its ranks, so to speak, to conform or suffer rebuke, ostracism, or whatever punishments are within its power. And conformity has been the *bête noire* of intellectuals.

Yet many of the same intellectuals who have condemned conformity to society have been vigorous promoters of democracy, even democratic socialism. They have promoted a compelled conformity by the use of government power over the conformity induced by influence of society. They avoided the onus of this by attributing goodness to democracy and claiming to identify society with government by way of democracy. If conformity were the evil, it might be supposed that compulsory conformity would be worse than elective conformity.

### **Conformity to Their View**

Actually, most intellectuals are no more opposed to conformity than are the generality of people. Each of us harbors in his breast the desire to have others conform to his will. What has troubled most intellectuals has not been conformity but rather kinds of conformity to which they are opposed and over which they have no control. Conformity to society, its norms and prescriptions, has been, in their view, irrational and backward. By their lights, they would substitute for conformity to tradition a conformity to reason, a

reason that by their conceit they are uniquely equipped to divulge. The idea that has the world in its grip is a vision of just such a conformity.

The role of democracy in this needs also to be grasped. The theory of democracy holds that democratic government would actuate the will of the people. If this were the case, it is difficult to see how government action would be brought under the control of intellectuals. What is more likely, however, is that there is no such thing as a "will of the people." True, majorities can often be obtained, either for men, or on one side or another of issues, especially if there is only one choice to be made. But the getting of a majority depends on how the issues are stated and the personal appeal of candidates. In short, the statement of issues and the formulation of the candidate's opinions are crucial. These are pressure points for manipulating decisions in democracies. They are the points occupied by intellectuals. Democracy, then, is the means by which intellectuals would exercise control over and produce the kinds of conformity they desire.

It has been made to appear that, by voting, the individual increases his control over his affairs. This is only the case, however, if he successfully votes to reduce government involvement in his affairs. If he votes to increase government action, as he does if he votes for the programs of

gradualist socialism, he votes to diminish his own control over his life and affairs. He may be induced to do this by the promise of benefits, benefits which will free him from many of his individual responsibilities. But when he does this he is only voting himself greater responsibility for others and less control over how it will be exercised.

### **Democracy in Sweden**

Sweden is one of the most democratic countries in the world. Not only is there universal suffrage but also a great variety of consultative and mediative mechanisms by and through which people may express themselves. There is even an official known as an Ombudsman who has the power to penetrate and hold the bureaucracy to account. No group, at least organized group, is apt to be ignored when some decision is made which would affect its interests. Collective decisions are a la mode in Sweden, and the Swedes have applied their passion for orderliness to see that as little as possible is done without consulting the collectivity. All of which is just another way of saying that the Swedes have lost much of their individual liberty and control over their lives and property. The screws on the individual which make him conform to the collective will are continually being tightened.

One of the most obvious ways in

which Swedes individually have lost much of their control over their affairs is by way of taxation. On the average, Swedish workers work over forty hours per week. According to reports, they work hard when they work; and pay in much of industry is on a piece work basis, which is certainly conducive to productivity. Local and national income taxes take away about a third of their pay on the average. Taxes rise sharply on those with higher incomes and go to as much as 71 per cent. The well-to-do also pay a "wealth" tax on top of the regular income, but there is, mercifully, a ceiling of 80 per cent on the combined national and local taxes on income.

A general sales tax of 10 per cent on the cost of items bought prevails. In addition, unusually high taxes are levied on gasoline, liquor, beer, cigarettes, and chocolates, among other things. Technically, the pension fund is financed by employer contributions. In fact, of course, this payment is a wage cost and is a reduction of employee wages or employer income or both. This last aside, however, it is not uncommon for a workman to lose 50 per cent of his pay to direct taxes. Then there is the ubiquitous and invisible tax gatherer—inflation—, and Swedes have been hard hit by it as have most other peoples. Of course corporation profits are taxed, taxed, that is, if they are not placed in an in-

vestment fund, taxed at a rate of up to about 53 per cent of combined national and local levies.

It should be clear that the individual loses personal control over all his money taken by taxation, whether direct or indirect. According to social democratic theory, the control over that portion lost by the individual passes over to the collectivity. The matter is not so simple, however, for so long as there is a choice people are by no means united as to how or whether the money should be taken and spent. For example, in the late 1950's, a major controversy developed in Sweden over the proposal by the Social Democrats for a supplementary pension program. Following a national election in which the program was a major issue, the legislature passed the measure by a vote of 115 to 114. This was surely not the expression of a collective will but the imposition of a measure on the whole populace by the narrowest of majorities.

### **The Housing Shortage**

Probably the best known infelicity of Social Democratic Sweden is its housing shortage. It is a good example, too, of how the Swedes have lost effective control over their affairs and are thwarted in their aims by government policy. There are two aspects to the housing shortage. One is that there is a shortage of housing in places where it is wanted. The

other is that the dwellings available are remarkably small. The majority of city dwellers live in apartments, and these generally run to 2½ rooms each. One-fourth of urban dwellings have but one to two rooms.

Both kinds of shortage are a result of government practice and policy. Rent controls over many years have kept rents below what they would be in a free market. Hence, private builders have seen little advantage to be gained from building places for rent. A remoter reason for the shortage of houses has been the rapid industrialization in the twentieth century. As a result more than 75 per cent of Swedes now live in towns and cities. There is reason to believe that this industrialization and urbanization has been accelerated by government policy which favors capital expenditure.

It looks, too, as if the government were deliberately going about creating a housing shortage. Much urban housing has been demolished, under the claim that slums were being cleared away, but a goodly amount of this housing was quite habitable and much more commodious than the housing built to replace it. In any case, government determines what housing is provided. As one writer says, "The government and local authorities erect a third of all new dwellings, and almost all housing projects are backed by government loans. It is the government

that decides on the number of housing starts each year, enforces building standards, and subsidizes pensioners and low-income families to about 25 per cent of their rent."<sup>1</sup>

It is a result of government policy that apartments are so small. One aim of this policy is egalitarian, to see that every Swede has a "quality" dwelling. To put it another way, if everyone cannot have a large house, then no one should have one. But the matter goes deeper than that. The government has, after painstaking calculation and consideration, decided what sort of housing people need. It has decided what size and what components a kitchen should have. It has decided that central heat, double glazed windows, and garbage disposal chutes are needed rather than more space for rooms. It has set the kind of limitations on what is to be included so as to make it expensive to build very small accommodations. Large families are almost unthinkable in the postage-stamp houses, and Swedes must long for summer when they can get out of the stifling atmosphere of their houses into the open spaces.

### **Declining Population**

Sweden is in a squeeze from the make-up of the population, and no relief is in sight. The basic problem is that a larger and larger percentage of the population is reaching retirement age. The low birth rate is

not replenishing the population. In consequence, a smaller and smaller work force is having to carry the burden of feeding and caring for that portion of the population that is retired. The increase of productivity per worker might make it possible to continue for a while, but it should be noted that this could only be accomplished by denying to the workers any benefits from the increased productivity.

Moreover, if earlier analysis is correct, government policies already encourage much wasteful capital spending, spending which may indeed increase the productivity of workmen but which requires much more work to replace the equipment being retired. About the only area in which the Swedes could move to enhance their productivity would be to use all the time that goes into social planning, consultation, negotiation, and other such activities for productive purposes. But if they were to do so it would be to abandon democratic socialism.

The Swedes have invested a great deal of intelligence, ingenuity, and determination into making their variety of socialism work. Of this, there should be no doubt. They have done so under as near optimum conditions as are likely to be found on this planet. They have avoided participation in wars that would have cost so much and returned so little of a material character. They had a

homogenous population which should be ideal for collectivism. They have benefited much from international peace. They have avoided internal revolution, or anything approaching it. They have modernized with great vigor, taken advantage of specialization of labor, and promoted capital accumulation and investment with a will.

### **A Mechanical System**

The result of this effort and ingenuity is this: The Swedes have probably come as close to creating a materialistic and mechanical system as it would be possible to do. Does it work? It works as well, and as ill, as a materialistic and mechanical system is likely to do. It works to inhibit the able and adventuresome and to reward the less talented and least venturesome. It works to produce a modernistic sameness which may have sweep to it as viewed from a distance but is stifling from inside. Office space is determined by the amount reckoned to be enough to keep the worker from being overcome by claustrophobia. It works to stifle every grain of idealism that ever was raised by socialism.

The Swedes are a proud and stubborn people. They have labored for a lifetime to establish their variety of socialism and to make it work. If they are aware of the loss of liberty, they are not given to admitting it, or

that they miss it. If loss of control over their property troubles them, they do not make much over it. Businessmen are acclimated to the manipulations by which it is often possible to operate in a thoroughly politicized economy.

Is the natural progression of gradualist socialism toward tyranny? One way to answer this question is to say that from its outset it is in one sense tyrannical. It is tyrannical in that it makes the individual conform to the majority or collective will. It is tyrannical in that it forces the individual into the mold of experts, social planners, and the lowest common denominator of the popular will. It forces the individual to deny himself and to bow to the will of others. It forces the individual into a life of continual compromise, compromise between the way he would do something and what the law requires, compromises between what he wants done and what others who have managed to get behind them the power of government want done.

### **Denial of Conscience**

The tendency of democratic socialism is to make the individual deny himself in all those ways in which he is unique, different, or peculiar. It may be the worst tyranny of all, for it denies the individual conscience, denies it by not allowing it room for operation in the

ordinary warp and woof of life. To be forced to yield to the collective will in the ordinary decisions of life is to deny to the individual a significant portion of his humanity.

The shift from living under the social influence of tradition to living under the compulsions of collectivism may occur so gradually that the individual is hardly aware of it. It is a crucial part of the theory and practice of gradualism that this should be so. This has been especially the case in a country like Sweden where the outworks of tradition have been preserved while their inwards have been eroded away. The church still stands, of course, but it stands for very little. The home has not been outlawed, but many of its functions have been subsumed by the state.

The moral and spiritual dimensions of life have been severed from their roots in social democratic Sweden. This has not been done by outlawing them; Swedes have substantive religious freedom and may spend about as much time as they will contemplating the domain of the spirit. It is rather that an order of priorities has been established—priorities that are material in character—which leaves little room for the development of moral and spiritual beings.

Some of the most sensitive Swedes have given expression to the otherwise stifled longing for a spirituality

to life. Dag Hammarskjöld lived an outward life that conformed well to social democratic prescriptions, suppressing, it may be, his deep spirituality. "It was only after his death that it was revealed how much . . . the quietly competent, serenely self-confident diplomat, was really a mystic who had worked out a personal philosophy about the idea of life as a sacrifice." His posthumously published diary, *Markings*, which became an international best seller, was, by his own account, "a sort of 'white book' on my deliberations with myself—and God."<sup>2</sup> He left no doubt of what he lacked and longed for when he said, "I ask the impossible that life shall have a meaning. I fight the impossible that life shall have a meaning."<sup>3</sup>

### Good vs. Evil

Ingmar Bergman is surely the best known of Swedish film makers. He enjoys an international reputation. But there is a dark and morbid character to his films, depressingly so, it is fair to say. Bergman chooses to bare the souls of his characters, and to have them troubled with the ancient problems, such as those of good and evil. Bergman has attributed these preoccupations to the fact that he grew up as the son of a minister.

"When one is born and reared in the home of a minister," Bergman has said, "one has a chance at an early age to

catch a glimpse behind the scenes of life and death. Father conducts a funeral, father officiates at a wedding, father performs a baptism, acts as a mediator, writes a sermon. The devil became an early acquaintance, and, in the way of a child, it was necessary to render him concrete. . . ."<sup>4</sup>

Probably it was Bergman's childhood background that acquainted him with his themes, but his near obsession with them as an adult almost certainly stems from the spiritually deprived character of Swedish life.

In any case, he has given us a hint in his account of his youth of what social democratic Sweden has very nearly smothered. Birth, baptism, marriage, and death, these are great events of life which ancient religious ritual celebrated in their spiritual dimensions. It is most difficult to know God for those who have not known a human father in all his dimensions. It is difficult to know love for those who have not experienced the sacrificing love of a mother. It is difficult to separate the sacred from the profane for those who have not actively participated in the communion of a religious congregation. It is difficult to know concern and care if one has not witnessed it evinced in the help extended from neighbor to neighbor. It is difficult to develop morally if one is denied individual choices and saved from responsibility for such as he

makes. It is these things that the paternal state eviscerates or deactivates.

### **Broken Relationships**

The paternal state tends to mechanize and diffuse basic human relationships. It is doubtful that the baptism of a newborn infant can compete with a check from the state awarded to the mother. Marriage is an inessential relationship to the Swedish state, for if there is no registered father of the child the state will make special provision to take care of it. The paternal state becomes a kind of surrogate father of all children. So far as the state can do so, it removes the element of sacrifice, if not love, from motherhood. Neighborhood and community lose meaning by being nationalized and administered by a bureaucracy. State appropriated money replaces compassion and concern. Morality and spirituality survive in a virtual vacuum; their functions have been taken over by the omnipresent state.

Socialism diffuses concern so broadly, so far from the natural relationships of kinship and proximity as in neighborhoods, that the benefits the state hands out take on the abstract character of rights rather than being suffused with warm human concern. Care for aged parents may indeed be a burden for children, but it is not less so for being nationalized. It is only that

when it is nationalized it is bereft of much meaning as it had. The birth of every child is a cost to the taxpayer. The retirement of any person is a burden to the working population. All this without benefit of being warmed by a baby's smile or recalling the tender moments of childhood with one's own parents. It is cold, mechanical and devoid of any but the relics of humanity.

But let us return to the question of tyranny. Will gradualist socialism proceed to other and more easily recognized forms of tyranny? Although there is little enough historical evidence on which to base a conclusion, there is reason to believe that it may, though how it will come is still a matter of contingency. One way it may come is by way of the onset of barbarism to which socialism tends. Liberty, in practice, depends upon an underlying respect for the rights and private realm of others. It is just this that collectivized democracy is continually assaulting. Barbarity is a logical result of the dehumanized relationships discussed above.

### **A Displaced Concern**

Care in equal measure for all the people of a nation posits a godlike concern which is beyond most mortals. When parents cease to care for their own children, and children for their aged parents, they do not extend that displaced concern to all



children and to all aged parents. Much more plausibly, they are not much concerned about any children or old people. The trend toward barbarity is already apparent in loss of concern for unborn babies and in the shunting of old people into special "homes." Neither life, liberty, nor property are apt to be much protected when concern and respect are sufficiently and widely lost.

There is another way in which democratic socialism may prepare the way for a broader tyranny. Social democrats know how to deal in a variety of ways with recalcitrant individuals. They can arrest them, levy penalties against them, deny them favors, send them to prison, or even put them in mental institutions. But they have only one approved way of dealing with groups or collectives, whether these be nations, labor unions, youth organizations, or retirees. That approved way is negotiation. The gradualist state does not negotiate with individuals. It makes them conform or suppresses them. But groups are not to be suppressed; concessions are to be made to them, and they are to be brought somehow into amiable accord with other collectives.

Sweden is the example, par excellence, of this penchant of socialism to negotiate peace among groups. The country enjoys an unusual amount of labor peace. Despite the fact that unionization is widespread,

and that employers are organized as well, strikes are rare. (All these organizations are so closely regulated, however, that there should be doubt as to the extent to which they are free.) In international relations, the Swedes have both promoted international negotiations and maintained a posture of neutrality. Swedish diplomats have long been famous for serving as mediators.

### **Revolution Dominates**

Revolutionary socialism, particularly communism, poses a continual threat to evolutionary socialism. While communists do sometimes negotiate, their methods in general are not such as are conducive to mediation. Far from professing to mediate differences among classes, they seek to suppress most classes. They accept warfare among classes as the norm until such time as all "exploiting" classes are put down. Moreover, revolutionary socialists stand ready at all times to build upon the inevitable frustrations of evolutionary socialism.

It has been noted already that idealism can hardly survive socialism. The reason for this is that once socialism is in power it bogs down in compromises and in the continual pressures of groups for economic advantage. Revolution holds out the prospect of a quite different scenario, of an end to the

struggle, of a final victory of the righteous, and of an eventual perfect justice. The social democratic bent to mediate and negotiate among groups unfits it for dealing with revolutionaries. It does not will to suppress them, and given this weakness the time arrives, or may arrive, when it cannot.

In any case, the love of liberty is a diffuse thing. There is much evidence to support the view that people are as readily enamored of freedom from responsibility as they are of individual liberty joined to personal responsibility. They can be and have been enticed to support measures which reduce everyman's

liberty by collectivizing responsibility. That way lies tyranny, of one sort or another, perhaps all sorts.

Sweden represents but one variety of evolutionary socialism. It is time now to examine another, one much nearer home. Ⓢ

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Next: 18. *The United States: A Republic and Gradualism*

### —FOOTNOTES—

<sup>1</sup>Donald S. Connery, *The Scandinavians* (New York: Simon and Schuster, 1966), p. 296.

<sup>2</sup>*Ibid.*, p. 290.

<sup>3</sup>*Ibid.*

<sup>4</sup>*Ibid.*, p. 436.

## To Do Good for the People

WHEN a person gains power over other persons—the political power to force other persons to do his bidding when they do not believe it right to do so—it seems inevitable that a moral weakness develops in the person who exercises that power. It may take time for this weakness to become visible. In fact, its full extent is frequently left to the historians to record, but we eventually learn of it. It was Lord Acton, the British historian, who said: "All power tends to corrupt; absolute power corrupts absolutely."

Please do not misunderstand me. These persons who are corrupted by the process of ruling over their fellow men are not innately evil. They begin as honest men. Their motives for wanting to direct the actions of others may be purely patriotic and altruistic. Indeed, they may wish only "to do good for the people." But, apparently, the only way they can think of to do this "good" is to impose more restrictive laws.

IDEAS ON



LIBERTY

Kenneth McDonald

# RISK AND PROFIT versus SECURITY



FROM the moment of birth, life is a risky business. The search for security is instinctive. Where the parents sought it in religion the children seek it in the state.

Because they do, the state has grown, its growth fueled by revenues that increase every year. The transfer of wealth from individual hands, which created it, to public hands which merely redistribute it, achieves another kind of redistribution: the number of consumers is increased; the number of producers diminished.

The process is cumulative. Tax-funded services which people regard as "free" are partaken of liberally on

that account. Nor are they recognized as an element of compensation. Rather does the mounting tax deduction from the pay packet cause demands for more pay. But pay must come from wealth, the sum of which is declining.

Underlying the whole process is the most insidious tax of all: inflation. The lack of political courage to tell the truth, to reveal the absence of a free lunch, impels politicians either to borrow money or to enlarge the amount of it in circulation. Whichever device is resorted to—often both at the same time—the future is mortgaged to pay for the present.

Indexed pensions, whose projected growth to astronomical figures alarms every self-respecting actuary, are sops to a people whose currency inflation must destroy.

At 7 per cent annual inflation,

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1977's modest \$15,000 salary would grow to \$58,000 in 1997 on cost of living allowance alone. If a further 7 per cent were added each year for merit pay or fringe benefits, it would grow, by 1997, to \$201,000. Not wallets, but wheelbarrows.

As more and more power—the power to distribute wealth—is transferred to the state, people look increasingly to the state as a source of investment.

### State Ownership in Britain

An advanced stage of the process may be witnessed in Britain, where a state-owned National Enterprise Board was formed in 1975 to rescue major enterprises that had fallen into decline as a result of the state's encroachment. How insidious the process may be judged by the fact that *The Economist*, hardly a radical journal, records the development with a perfectly straight face.

A report in the issue of May 7, 1977, concludes with this sentence: "Intervention leads to ownership but much of it—inevitably under any government, let alone one eager to save jobs at almost any price—is riskier than a commercial company should be expected to undertake."

Risk, upon which was founded the commerce that took Britain to greatness, is now, in her decline, too risky to undertake.

The welfare state, which seeks to conceal the realities of death and

misfortune, must cushion the risks that attended the creation of the wealth it has dissipated.

Canada, which is said to be trailing Britain by a scant five years, is scattering the seeds of a National Enterprise Board of its own. Venture Investment Corporations promise rain to end the equity drought.

Not that VICs are bad in themselves. Within a too-pervasive state they offer investors the incentive of relief from the state's tax burden. But it is because the state has intruded too much that the relief must be offered. VICs are a palliative, not a cure. The vehicle their initials remind us of will not carry us very far.

Just as a compost heap turns a garden's residue into food for more produce, so must the wealth creating process turn its own residue to the creation of more wealth.

Its residue is profit.

How profit is used, and of what it consists, are bones of perennial contention. Politicians of every stripe have worried them to death. For special interest groups who would shift the blame for their own deprivations, profit is the scapegoat.

Some are prone to regard it as a surplus, as a bag of money that the owner of a business takes away to spend on him—or herself—while the wage earners count out their pennies for bread.

Others look at a business in isola-

tion. The financial results for one year, or one quarter, are pasted on the wall like specimens in a laboratory. It is as if they had stopped a film on one frame and were trying to determine, from that frame, what had happened before and what would happen next.

But (except by going out of business) the business cannot be stopped. Every minute of the twenty-four hours, seven days a week, it is ticking away.

Interest costs on borrowed financial capital (bonds and debentures); dividends on equity capital (shares of common stock); costs of wages, of vacation pay, of future pensions for those working and of past pensions for those retired; costs of machinery that is wearing out and must one day be replaced; costs of raw material or other supplies needed to make the product; costs of transportation, of heat and light and power; costs of telephone and mail; costs of accounting; costs of interpreting and adhering to government regulations; costs of calculating and paying out taxes to three levels of government; costs of research into better ways of making the product and of developing new ones; costs of advertising and sales. It never stops.

### **The Urge to Be Independent**

Think of the process as a film, with people working in offices, or operating machines, or standing be-

fore drawing boards, or selling the product to customers, and there is no sequence where someone walks out the door carrying a bag marked "surplus."

Yet there is a residue, something left over, a margin of some sort. Otherwise the process would stop.

Does everyone engaged in the business—owners, employees, investors—give a little more than they get back? In a way, they do. They give energy, and initiative, and ingenuity and, no doubt, some enthusiasm. They provide part of the economic energy that keeps the film turning, the business going. But not all of it.

Where did the rest come from?

It stemmed from the urge to be independent that is present in every person who has the idea for a business. Call him or her Smith.

Smith was convinced the idea would work. Whether a product or a service, it could be sold. There was a niche for it in the market.

To get it to market, Smith needed money (the financial capital) in order to acquire the office and office equipment, or the buildings and machinery (the productive capital) to start the thing off.

Smith was prepared to take a risk, but not many Smiths have either enough savings of their own, or enough of anything in the form of collateral to borrow the money—the risk capital.

Banks are not in the business of taking risks. They have a responsibility to their depositors. Governments are not supposed to take that sort of risk, either, because they have a responsibility to taxpayers. Unfortunately that does not always stop them from trying.

Someone, or a number of people, had to be found who would be willing to put up the risk capital to get Smith started. From their own experience in business they would examine Smith's idea and if they thought it would work, and if they thought Smith was a sensible person, they would put up the money.

We are back at risk.

Knowing that out of ten chances eight might fail and only two succeed, they must be assured of sufficient return from the two successes to make up for the failures. The return may be a long time coming.

The function of equity money is to carry the risk during the critical period from conception through business plan and start-up to profitable operation. During that period the equity investors get no return on the money they risk. But they have one vital quality which no chartered bank or government department or indeed government agency could inject: it is their own money at risk and they have a very intimate and personal reason for wanting the business to succeed. That quality is balanced by another: a readiness to

cut losses and stop, which governments lack because there are always political reasons for pouring good money after bad.

A curious feature of new ventures is that the instigators—the Smiths—turn to debt financing rather than equity. Possibly they feel more comfortable dealing with a bank. Banks are in the business of making people feel comfortable about borrowing from them. No doubt that is why they inhabit such splendid buildings.

But to secure a loan there must be collateral. Usually it is the building, or the machinery, or both—the productive capital that the business needs to function. Later, the business will need more money to tide it over between getting the orders, making the products and getting paid for them. It is at that critical point, when there is no more collateral, that many businesses either fail, or are taken over by an established competitor.

Yet the reason many owner managers give for preferring debt over equity is a reluctance to surrender, or even to share, ownership.

### **Risk-Taking by Individuals— A Dying Art**

But the people who are willing to take a chance on backing them—the equity investors—must also be assured of at least an even chance of a return on the money they're pre-

pared to risk. Otherwise they won't risk it. That is the crux of our problem. The misconception of profit has become so widespread, and the supporters of government planning have been so influential, that risk-taking by individuals is a dying art.

Instead of risk-taking being encouraged, it is discouraged. In an age when the schools and colleges are training Canada's young people for pensionable jobs in public or private bureaucracies, anyone who takes risks is regarded as a freak. The atmosphere, the social pressures, not least the tax system, all are opposed to risk-taking.

Without equity, the main source of creating wealth and jobs is drying up.

Those who advocate central planning of the economy are drawn by the mirage of state-fed security. Central planning and risk-taking are poles apart. The more the state plans, the harder it is for individuals to make plans of their own.

To make them, they need to know, in advance, what the ground rules are. Smith, and the equity investors who would put up the money, need to know, in advance, what the costs will be during the crucial period between starting up the business and reaching the break-even point at which revenue draws level with expenditures and begins to draw ahead. That period might be as short as one year or as long as five depend-

ing on the size and complexity of Smith's business.

In a time of stable prices, of low taxes and, consequently, of a low level of state intervention in the economy, estimating costs during that period would be relatively straightforward—little more than a projection of current costs against the estimated rise in business volume. Today, however, prices are unstable. Quality and availability of labor are serious problems, taxes are high—all resulting from state intervention. Worst of all is the uncertainty.

### **Clearance Procedures**

So many powers have been delegated to regulatory boards and commissions of one kind or another that it is impossible to forecast. One thing is certain. Smith's planned activity would have to be cleared with planning boards in any or all of the three levels of government. At each step the decision would be based not on broad rules laid down by parliament but on variable rules which, in the opinion of the inspectors or commissioners or regulators, were appropriate to the circumstances at the time of application.

Even if Smith and company overcame the first field of hurdles, quite likely they would find themselves opposed by environmentalists or other publicity-seeking special interest groups, often subsidized by

the state, whose ambition is to occupy center stage at every opportunity.

If profit is both spur and fuel, if profit is to supply the economic energy to keep the system going, it must be open to all comers. Otherwise its essential ingredient—the limitless supply of human ingenuity—will be shut out.

Yet what do we find? Profit is recycled within a closed system. The banks and other financial institutions which depend on a safe return to protect their depositors' and their own investments will invest their funds safely, i.e. in the country's leading, well established enterprises. Most of them are regulated, to varying degrees, by the state. Their return is limited by taxation and inflation. If it should appear to rise above a "reasonable" figure in any one period the enterprises will be attacked from all sides.

### The Final Security

Institutional investors, the enterprises they invest in and draw returns from, the governments which control them both—all three are engaged in a ritual dance from which the individual investor is excluded.

At those modest rates of return he cannot afford to enter the game. But without his contribution of energy, of enthusiasm, of willingness to risk and to wait, the game will slow down, as it has slowed down, until it is not a game at all, but a funeral procession.

Death, which shares its certainty with taxes, is also the final security. The search for security, which gives rise to taxes, drives away the risk which accompanies all creation.

The generation of risk capital is no different from any other generation. It must come from its own kind. ☹

### What Pulls Up Wages

THOUGH labor is a commodity, the price of which is subject to supply and demand, it is a unique commodity. It enters into every kind of production, and as productivity increases, the workman shares in the increase.

The hope of profit in new and growing industries forces employers in those industries to bid up for labor. This force has caused them to bid millions of people from off the farms, from out of depressed areas and out of domestic service, and even from across the Atlantic. The best and the most new jobs are normally found with the most optimistic employers who have the strongest hope of profit. And it is such labor markets that over the decades have steadily lifted wages.

IDEAS ON



LIBERTY





# Government Regulation and Business Management

John Semmens

A "managerial revolution is now underway, a silent bureaucratic revolution, in the course of which much . . . of the decision-making in the American corporation is shifting . . . from the professional management selected by the corporation itself to the vast cadre of government regulators who are influencing and often controlling the key managerial decisions of the typical business firm."<sup>1</sup>

The State's invasion of managerial prerogatives has occurred on virtually every conceivable front. The government has not shied away from deciding *what* shall be produced (i.e., tobacco shall be pro-

duced, even subsidized, but cigarette commercials shall not), *how* it shall be produced (i.e., electricity shall be generated by burning coal, though a few years ago power companies were induced to switch from coal to oil for environmental reasons), *who* shall produce it (i.e., between firms via monopoly franchise grants and within firms via affirmative action programs), *where* it shall be produced (i.e., by granting offshore leases in the Gulf of Mexico, but not off the Atlantic Coast), and even *why* a product shall be produced (i.e., air bags for automobiles shall be produced for passenger safety regardless of whether the consumers want them or not).

This invasion has not come as the result of one massive onslaught. Rather, it resembles more a war of

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attrition in which business has been gradually surrounded, its perimeter growing smaller by degrees. Perhaps if the government lunge into capitalist territory had been concentrated and overt, the business community could have devised a better defense. Instead, like the frog that never jumps from water brought slowly to a boil, business management has been unable to decide at what point the destruction of managerial options will be fatal to the business enterprise.

### **Unbounded Authority**

The power of the federal government to regulate business derives from the U.S. Constitution.<sup>2</sup> This provision allows the U.S. Congress to regulate commerce between the states as well as between the United States and foreign entities. The scope of this interstate commerce authority is broad enough to cover virtually any economic activity. In a famous case in 1942, *Wickard versus Filburn*<sup>3</sup>, the distinctions between commerce and manufacture or agriculture and between intra- and interstate were dissolved when the Supreme Court determined that any goods or services which might be in competition with goods and services actually crossing state lines, were subject to federal regulation.

These powers of regulation are exercised primarily by executive agencies which in many cases have

taken on a life of their own. Congress's authority to delegate such broad powers was upheld by Supreme Court decisions in 1939.<sup>4</sup> (It may be a matter of significance that these key court decisions were rendered in agricultural disputes. Corporate business showed little resistance to the increasing role of government in economic matters.) This delegated authority is typically a carte blanche grant of power to do all things necessary to insure that the regulated environment is "just and reasonable."<sup>5</sup> In case any loopholes are left in the federal regulatory net, most states have established supplemental regulatory agencies of their own. In Arizona, for example, the State Corporation Commission is empowered to "do all things . . . necessary and convenient" in exercise of its regulatory mandate.<sup>6</sup>

### **Institutionalized Incompetence**

Theoretically, the expanding power of government regulations ought to be making the tasks of business managers easier. The consolidation of decision-making power within government agencies capable of perceiving the broader requirements of the national interest has, indeed, been one of the selling points of the regulatory philosophy. Following the grand plan of the central government ought to be a simple matter for business managers.

Such, however, is not the case. Regulatory guidelines have been unclear. The "just and reasonable" dictum has proven so elusive that the courts in reviewing regulatory actions have dispensed with the necessity to define the phrase<sup>7</sup>, that the determination of what is "just and reasonable" is completely at the discretion of the regulatory agency<sup>8</sup>, and that the "burden of proof" is a matter for the regulators to decide on a case-by-case basis.<sup>9</sup>

Erratic changes in regulatory policy defy prediction. Inflexibly enforced conformity robs the business system of its ability to plan for the future and adjust to changing circumstances. As a consequence, the economy is beset by a continuous series of crises, of crash projects, drives attempting to cope with the most immediately observable or fashionable problem. Such a management technique is, according to Peter Drucker, "an admission of incompetence."<sup>10</sup>

### **Induced Indolence**

Nowhere has the cost of this system of mismanagement been more dramatically portrayed than in the rates of return on investment. The government-business collaboration (or partnership, as some are wont to call it) has succeeded in increasing economic uncertainty, raising the cost of meeting consumer wants, and consuming scarce resources.

Uncertainty is, of course, an incapable circumstance of any dynamic environment. In a business sense, uncertainty exists in varying degrees based upon the nature of the firm's source of income. High levels of uncertainty mean increased risk. Increased risk means that the enterprise must yield higher returns in order to justify taking that risk. Competent management will seek to reduce risk born of uncertainty. This is accomplished primarily through superior planning that attempts to anticipate future requirements and conditions and to compensate for them.

Management foresight is, however, frequently frustrated by regulatory interventions. The entitlement program of the Federal Energy Administration effectively removes managerial incentives to secure supplies of crude oil at favorable prices by removing the gains that would have been enjoyed by firms whose managements had obtained longer term commitments of crude oil at low prices. The Federal Energy Regulation Commission's curtailment procedures routinely reward profligacy while penalizing conservation. Like the fabled ant who labored in the summer that he might survive the winter, firms which show the initiative to line up additional sources of supply to offset the predictable shortages of natural gas are likely to find themselves

candidates for further curtailment. Meanwhile, the grasshoppers who fiddled away the summer are the more frequent beneficiaries of extra allotments, since the regulators seek to equalize suffering, not opportunity.<sup>11</sup>

### **Eating the Seed Grain**

As the incentives of managerial perspicacity and planning are eroded, the tendency to await governmental decrees in lieu of independent action will undoubtedly grow. This lapsing of the business system into the management by crisis syndrome has not gone unnoticed by the investment community. This rising indolence of management is reflected in the greater apprehension with which the providers of capital view the elements of business risk.

The most heavily regulated industries have experienced significant increases in their cost of capital. Interest rates on corporate debt have tripled in the last 20 years.<sup>12</sup> Earnings have been unable to keep pace. As a consequence, many American businesses have been consuming their capital. The foolhardiness of such a practice is obfuscated by all manner of excuses from both government and industry. The current administration's position on energy seems to imply that it would be "unfair" for consumers to bear the full cost of the services they

enjoy. The power industry's position, to judge from a number of their comments, seems to be that it is impractical to require that consumers bear the full cost of the services they consume.<sup>13</sup> This viewpoint has been implemented via extensive borrowing of funds. Apprised of this method's close resemblance to a Ponzi scheme, one power company official placed his trust in the hope that the impending collapse could be postponed to a distant future when some miracle of technology might save the day.<sup>14</sup>

The fact of the matter is that U.S. industry in aggregate has been unable to generate sufficient cash flow to cover its investment since 1965.<sup>15</sup> Contrary to popular myth, increased costs brought on by government regulations are not all passed on to the consumer. In recent years great amounts of the increased costs have come out of profits. Real corporate profits peaked in 1966. Corporate management has been unable to maintain them save through accounting methods that transform capital into phantom earnings.

### **The Enemy Within**

The erosion of investment capital does not speak well of management's performance of its responsibility as conservator of the owners' assets. Capital is the pillar upon which the modern industrial society is founded. It is the repository of

stored effort which has enabled humanity to obtain more and more by way of less and less direct labor. We have been, for the last decade or more, embarked upon a course bound to dissipate this capital.

This dissipation has received its crucial impetus from government intervention into the conduct of business activity. Management can hardly be faulted for obeying the law. However, the role of business management in the attenuation of the entrepreneurial system is more than that of an unwilling victim. Time after time, the initial agitation for government intervention has come from business itself. From the very beginning of the so-called Progressive Era, it has been at business's invitation that the government has imposed regulation.<sup>16</sup> The corporate community was a willing and active participant in the New Deal NRA—a program of government-directed cartellization of industry.<sup>17</sup> Today, business invitations for government collaboration grace the pages of our newspapers almost every day.

Prices of sugar down? The industry is quick to demand subsidies, tariffs, and controls. Steel industry beset by hard times? Management is vociferous in its demand for special relief and import quotas. Possibly the most galling example of management's tunnel vision occurs in the oil industry. At the very moment

that the chief executives are bemoaning President Carter's attack on their integrity, the oil lobby is simultaneously pushing for deregulation of prices and imposition of tariffs on imported petroleum products.

In its quest to have the best of both worlds, business has gone a long way toward the establishment of the worst of all worlds. Managerial latitude has been severely circumscribed. Corporate leadership seems anxious to abdicate and many executives are well on the way toward becoming mere bureaucratic functionaries.

### **The Death of Managerial Enterprise**

The key element in making management work is the entrepreneurial nature of the private enterprise system. Its gradual transformation into a quasi-public enterprise via increasing regulation dilutes the motivating elements and introduces a greater measure of irresponsibility. Bureaucrats can be urged or exhorted to produce better results, but the reality is that they bear little, if any, of the consequences (good or bad) of their managerial decision-making.<sup>18</sup>

A final piece of evidence that the growing reliance upon and dominance of regulation has eviscerated managerial vision and ambition comes from one of the participants

in the federally supported Wesco Coal Gasification Project: "federal loan guarantees are necessary because of the large amount of capital required, but more importantly because coal gasification, on the scale proposed by Wesco, has never been attempted in the U.S."<sup>19</sup>

The belief that government backing is imperative for great undertakings is not the same spirit of enterprise that made American business the envy of the rest of the world. ⊕

### —FOOTNOTES—

<sup>1</sup>G. T. Bowden, "Book Review: Business, Government, and the Public," *The American Spectator* (December 1977), pp. 37-38.

<sup>2</sup>*U.S. Constitution*, Article I, Section 8, paragraph 3.

<sup>3</sup>317 U.S. 111, 1942.

<sup>4</sup>*United States v. Rock Royal Co-operative*, 307 U.S. 533; and *Hood and Sons v. United States*, 307 U.S. 588.

<sup>5</sup>*U.S. Code* 49-1.

<sup>6</sup>*Arizona Revised Statutes* 40-202.

<sup>7</sup>*City of Chicago v. Federal Power Commission*, 1971, 458 F2d 731.

<sup>8</sup>*Pennsylvania Railroad v. U.S.*, CA, Pa. 1963, 315 F2d 460.

<sup>9</sup>*Commonwealth of Pennsylvania v. U.S.*, D.C., Pa. 1973, 361 F. Supp. 208.

<sup>10</sup>Peter Drucker, *The Practice of Management* (New York: Harper & Row, 1954), pp. 62-65, 126-129.

<sup>11</sup>"Gas Regulation Stymies Planning," *Purchasing* (June 17, 1975), p. 13.

<sup>12</sup>Alexander Paris, *The Coming Credit Collapse* (New Rochelle: Arlington House, 1974), p. 82.

<sup>13</sup>Correspondence with Southern California Gas Company (November 4, 1977), Arizona Public Service (November 2, 1977), and Transwestern Pipeline Company (November 16, 1977).

<sup>14</sup>Conversation with Arizona Public Service (November 11, 1977).

<sup>15</sup>Paris, *op. cit.*, p. 88.

<sup>16</sup>Gabriel Kolko, *The Triumph of Conservatism* (Chicago: Quadrangle Books, 1963).

<sup>17</sup>Ronald Radosh, "The Myth of the New Deal," *A New History of Leviathan* (New York: Dutton, 1972), pp. 146-87.

<sup>18</sup>Armen Alchian, *Economic Forces at Work* (Indianapolis: Liberty Press, 1977), pp. 127-150, 227-257.

<sup>19</sup>Correspondence with Southern California Gas Company, *op. cit.*

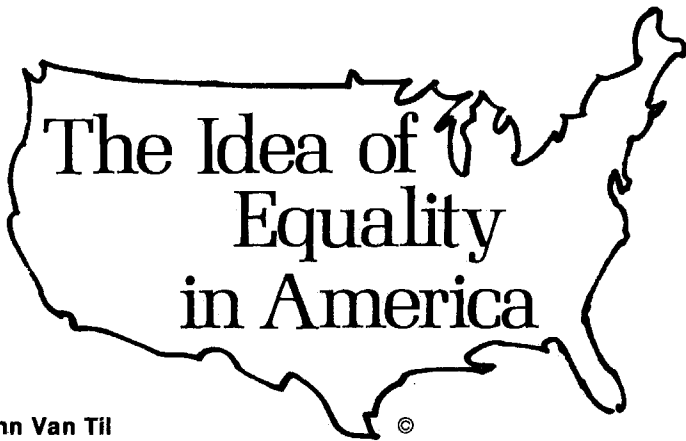
### Performing the Task

IDEAS ON



LIBERTY

WHEN A WORTH-WHILE TASK is to be performed, there are individuals who can and those who cannot; those who will and those who will not. The task is performed to the extent that there are those who both can and will. When government is permitted jurisdiction over the task, a third distinction is created: those who may and those who may not. Under these circumstances the best that can be hoped for is that those who may, includes all who can and will. Since this is rarely the case, the end result is usually the creation of another category; those who must!



L. John Van Til

APOSTLES of reform in our time have convinced millions of Americans that the good life for all is finally possible, that Americans are about to enter the "promised land." All that must be done, they say, before the good life can be achieved is to have us bow down before the sacred idea of equality. Thinking in materialistic terms, the apostles of reform believe that the good life can be provided for all if only we use the power of the central government to distribute the "fruits of industrialism" equally. These well-intentioned reformers argue that we have most of the programs legis-

lated and in operation, thanks to the efforts of the proponents of the Great Society. Richard Nixon preached this message, with some modification, and Jimmy Carter has embraced this doctrine of reform as well.

Contemporary reformers believe that programs like Affirmative Action and the Occupational Safety and Health Administration (OSHA) will right all wrongs in the market place, mellow evil hearts, elevate the downtrodden, and distribute the benefits of an affluent society to all. In the name of equality all sorts of programs are proposed, programs to guarantee a minimum income, provide "free" medical service to every citizen, and much more. The Walter Mondales and Joseph Califanos of our time demand programs too

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numerous to list, and they make their demands in the name of equality.

### **Today's Gospel of Reform**

The apostles of reform today, the men of good will who cut their social and political teeth in the nursery of Franklin D. Roosevelt's New Deal or in Lyndon Johnson's Great Society, dream about every American having the same "rights," the same privileges, the same benefits, the same status, and all of this guaranteed to them by the central government. Unfortunately, most Americans have not stopped to ponder the implications of this new gospel of reform. Indeed, most of the apostles of reform themselves have not thought about the implications of their demands. Millions of Americans have been captivated by the prospects which the new social programs seem to offer. They believe that these programs may "give" them something, not remembering that "there is no such thing as a free lunch."

It is time to pause in the headlong rush down the path beaten by the proponents of equality. It is time to pause and inquire into the meaning of their claims that the good life can be achieved through the use of governmental power to achieve equality of conditions. As will be evident in the pages that follow, the new programs depend upon a very different

concept of equality than was intended in the Declaration of Independence when it stated that "all men are created equal." Perhaps it is even more important to note how the apostles of reform today intend to achieve their new and expanded concept of equality. Unlike the Founding Fathers of the American Revolution, today's reformers believe that full use of all of the massive power of government is necessary and morally acceptable in the drive to achieve their new society, no matter that this would stifle individual initiative and creativity, and ultimately slaughter the economic goose that has laid the golden egg of prosperity.

In the pages that follow two parallel themes will be traced. One is the idea of equality itself. Where did it come from? How did it enter American social thought? How was it used in the Age of the American Revolution? How was it used in the heyday of social change, in the Era of Reform (1830-1860)? What brought about the change in meaning of equality in our time? The second theme, crucial to an understanding of the development of the idea of equality, is the concept of reform itself. How did Americans conceive of social change in the early days? In the Revolution? In the nineteenth century? How are these views of social change, or reform, different from that used by today's reformers?



These and other questions must be examined on the way to an appreciation of the radical nature of the contemporary impulse to reform all of society in the name of equality.

### **Equality in the Age of the American Revolution**

When Thomas Jefferson wrote that "all men are created equal," he did not mean that all men were equal in all respects. In other places he wrote with conviction about the existence of a natural aristocracy among men, based upon virtue and talent. Yet, many today quote Jefferson as though he intended to state that all men ought to be *made as equal as possible*. This is to speak of *equality of condition*, a position rejected by Jefferson and all political thinkers in the Age of the American Revolution. It was rejected because even a cursory examination of human nature reveals ineradicable differences among men.

If we are to understand the idea of equality in American society we must begin with an examination of its use in the mind of the Founders, tracing their view into subsequent developments in American history. Much has been written on the history of equality, especially in the twentieth century. Yet, most of what has been written does not help much to clear up the confusion that surrounds the term, confusion arising, for example, from the fact that

Jefferson could state his belief in both equality and inequality without a sense of contradiction.

How did the idea of equality come to be part of the intellectual baggage of the mind of the American Revolution? The concept of equality was not an invention of the Founders themselves, rather it was absorbed by them from the intellectual climate created by the Enlightenment and from colonial experience. The typical *philosophe* argued that since sovereignty in political society rests with the people, a certain sense of equality follows. Yet this sovereignty was delegated, the *philosophe* argued, to the crown or to other rulers. But the notion that equality could be part of society at all was part of their theoretical or mythical claim that equality had to be part of the State of Nature.

### **Enlightenment Thinkers**

Voltaire observed that equality must have been part of the State of Nature, yet it was something that men give up when they enter human society. Montesquieu agreed, but stressed the fact that since only a very limited degree of equality was possible in human society, men are left to ponder how they may reduce the inequalities. Sanford Lakoff has pointed out in his definitive study of equality in political theory that "the philosophical champions of enlightenment in the eighteenth cen-

tury were for the most part less anxious to propose equality than to denounce extreme inequalities."<sup>1</sup>

The most powerful and most direct influence on American thinking about equality was John Locke. His *Treatise on Civil Government* had considerable impact on the development of political theory in America. In it he argued that each man is born according to the rights and privileges of the law of nature "equally with any other man or number of men in the world."<sup>2</sup> Locke's view of equality appears to be a corollary to his belief that man comes into the world with the mind a blank slate. Distinctions among men were the result of what experience wrote on the tablet. In his scheme these differences and inequalities were, therefore, not from nature, but rather artificially wrought. Locke concludes, like the *philosophes*, that in nature there is equality though in society there are inequalities. But, importantly, in his scheme it was possible to change some of the "artificial" inequalities into conditions that were more equal. Locke himself did not explain how society should be changed in this regard.

In some respects his view of equality is qualified by his concept of Reason. Though he observes that "all men are by nature equal," he also states that "I cannot be supposed to understand all sorts of equality." By

Reason men may establish certain political practices which will assure "that equal right that every man hath to his natural freedom." By this he means to guarantee that none should be "subjected to the will or authority of any other man."<sup>3</sup> Lakoff concludes that Locke did not intend equality to be an instrument for leveling in any area of society except in politics.

### Colonial Experience

In addition to the theoretical understanding of equality provided by Locke and the Enlightenment thinkers, the Founding Fathers were heirs to a practical understanding of the idea based upon colonial experience. The colonies were far distant physically and psychologically from England and Europe, and thus, far removed from the pretensions of aristocracy. Equally important were the facts of life in the wilderness. Frederick Jackson Turner stated this point clearly when he said that "the wilderness stripped the garments of civilization" from a man, confronting him with the Indians, starvation, disease, and other hazards of the frontier. The settler was on an equal footing with his fellows, for the frontier life would kill the son of an earl as readily as the son of a cooper.

Further, life on the frontier with the lack of fixed social organization made men free and equal in a visible

sense. In this condition one could change his social position very rapidly; hence, there was no need for a person to feel inferior to his neighbor. These conditions prompted Tocqueville to remark, "The soil of America was opposed to a territorial aristocracy," concluding that the equality forced upon Americans by the conditions of their existence was the most compelling fact about the quality of life in America.<sup>4</sup>

Colonial experience elicited one common reaction from people, a desire for equal opportunity, the most forceful element in the equalitarian tradition in America. This was the motivation for most who came to these shores. Wealthy and successful Englishmen, for the most part, did not come because they had no need to improve their condition. Those who did come were in search of a way to improve their lot, disadvantaged people, middle-class squires who hoped to become landed gentry, and others. Tocqueville saw this and observed, "The happy and powerful do not go into exile, and there are no surer guarantees of equality among men than poverty and misfortune."<sup>5</sup>

### **The Reformation Tradition**

The central cluster of ideas that were used in the era of the American Revolution had their tap roots in the Reformation tradition as modified by Puritan experience. This is evi-

dent in the concern the Founders had for liberty. It was to preserve liberty that the American Revolution was fought. True, there were other concerns, but it was to preserve religious, economic, and political liberty that the Americans rallied in the 1770's. Preservation of liberty was a concern that ran deeply in colonial and English experience. Roger Williams made this point when he left Massachusetts Bay and formed Rhode Island. Liberty of conscience, Williams said, is the most precious freedom that man has and he must protect it with his life if necessary.<sup>6</sup>

Williams was carrying on the fight that had begun in England, and had been fought for in the English Civil War. Freedom, by the 1770's, was the most fundamental idea in the American mind. Freedom in this sense was a corollary of the Protestant Reformation. The Reformation in England resulted in the Westminster Standards, one of which declared, "God alone is Lord of the conscience and hath set it free from the doctrines and commandments of men." Man through conscience was free in relation to other men. It was this idea that informed the American experience between the days of the early settlements and the time of the Revolution. In this sense the American Revolution's principal ideas were rooted in a Reformation base.<sup>7</sup>

Perhaps a consideration of the difference between the American and the French Revolutions will help to make the point more obvious. Men act in important events upon what they conceive to be the most fundamental authority. The trauma of the moment is relieved if one appeals to the most secure authority possible. Since this is true, we may look at these revolutions from the point of view of what they conceived to be authoritative for them as they acted out their revolutionary aims.

Authority, for the Americans, was rooted in the God of Revelation in Scripture, or in the laws of nature that He had created. True, some of the leaders of the American Revolution stressed the laws of nature, but even this emphasis presupposed a transcendent God who limited and defined the actions of men. In contrast, the men of the French Revolution, products of the Enlightenment mind all, enshrined Reason as their authority. Reason, when viewed in this way, is not subject to a transcendent God; rather, it becomes whatever the mind of man makes it. The result for France was a revolution which knew no bounds but human imagination. Liberty meant whatever one wished. Indeed, liberty among the French came to mean license. Equality was part of the French Revolution's ideology, too. But in the context of Reason, equality turned out to be a radically level-

ing concept, unchecked by any Biblical notions of the social order.

It would be incorrect, therefore, to argue that the mind of the American Revolution was the product of the Enlightenment, although some of its principles were absorbed into the thinking of some of the leaders of the American Revolution. Here an important distinction must be emphasized.

### **In a Context of Freedom**

When the Founders spoke of equality, they did so in light of colonial experience, and to some degree from Enlightenment influence. But all discussion of equality was within the context of a more basic principle, namely freedom. Stated another way, freedom as developed in the Reformation tradition was the fundamental, constitutive principle in the American Revolution, while equality was a secondary and incidental concept.

With these matters in mind we are in a position to survey some of the Founders' expressions about equality. Thomas Paine had no difficulty with the concept when he said that "the unity or equality of man is one of the greatest of all truths." Fisher Ames objected to Paine's unqualified endorsement of equality, calling it the "pernicious doctrine" of demagogues. Joel Barlow, in his *Vision of Columbus* (1787) wrote, "Equality of right is nature's plan,

and following nature is the march of man." Franklin, an instinctively practical man, commented that "Time, Chance, and Industry" created distinctions among men. He also believed that all men were fundamentally equal in "the important ends of society, and the personal securities of life and liberty."<sup>8</sup>

By far the most extensive and reflective comments on the place of equality in the American scheme of things came from Jefferson and Adams, especially in their exchange of letters after both were in retirement. Both agreed that equality was a law of nature, but what did it mean beyond that? Adrienne Koch, a recognized student of Jeffersonian thought, states that Jefferson did not mean an arithmetical equality which reduces all men to the same level of talent, ability, and moral virtue. Rather, she observes, he was talking about the essential traits of the species.<sup>9</sup>

Adams took the same view. It is, he said, nothing more than the fact that men "are all of the same species, and this is all that equality of nature amounts to. . . . Nature has ordained that no two objects shall be alike, and no two perfectly equal." For Adams equality most certainly did not mean what some of its more extreme proponents said it did: "Equal rank and equal property can never be inferred from it, any more than equal understanding, agility,

vigor, or beauty." Then Adams came to the heart of the matter: "Equal laws are all that can ever be derived from human equality." Adams had no intention of denying equality. His concern was to define correctly its limits. Clearly he rejected what has been called "equality of condition."<sup>10</sup>

Jefferson believed that equality was a gift of God through nature; it was a self-evident, natural right that society could neither give nor take away. Thus, it guaranteed all men perfect equality of human privilege (life), political and religious prerogatives (liberty), and personal opportunity (pursuit of happiness). Limited in this way, equality did not extend to physical, moral, intellectual, or other aspects of human existence.<sup>11</sup>

### **Equality in the Life of the New Nation**

To understand the character of American society in the life of the new nation, in the period between 1789 and 1869, some consideration must be given to the way this era has been interpreted by historians in our time. The reason for this is the fact that this period has been an intense battleground between advocates of a neo-Marxist view of history and more conventional views. Once the effect of this dispute has been outlined, it will be more clear what the true state of affairs con-

cerning social theory actually was.

Led by Charles Beard, historians in the twentieth century have viewed American history as primarily a struggle between social classes, between the rich and the poor, those in power and those who exercise no power. Virtually every textbook in the past forty years assumed this point of view as it covered the early life of the new nation. Obviously there were differences between people in American society, differences in wealth and in power. The Founding Fathers saw such differences in their time, but they understood that such differences were natural and unavoidable. Unlike the Founding Fathers, Beard and his followers have taken the point of view that social differences are wrong and should be eliminated; therein, they follow the thinking of Marx and other socialists.

The assumptions of the Enlightenment and French Revolution were always present in America as an option for Americans to embrace. In general, it is true that these principles were not adopted *in toto* by Americans during the Revolution and during the nineteenth century. But circumstances changed as the twentieth century began. Increasingly, the intellectual climate was ripe for the acceptance of the ideas of the Enlightenment and the French Revolution, mediated, in some respects, by Marx. Indeed, it may be

stated that as the influence of this tradition grew in America, it did so in proportion to the decline of the influence of the Reformation tradition as expressed in the principles of the American Revolution. In other words, by the end of the nineteenth century intellectuals were disposed to accept humanistic standards rather than Biblical ones, whether the humanistic standards were scientific or in some other form.

### **Economic Class Conflict**

Anyone with a knowledge of American history writing knows that Beard, Carl Becker, James Harvey Robinson, J. F. Jamison, Arthur Schlesinger, and many other lesser lights in the field were devoted to writing history from the point of view of economic class conflict. They have been succeeded by a generation of disciples who followed their lead slavishly. Together these writers have shaped the image of the American past into a picture which is dominated by the principle of class conflict.

Two generations of Americans have grown up on history written from this point of view. The result has been that most Americans assume that soon after the Revolution, if not in the Revolution itself, American society began to be dominated by a conflict between those with wealth and power and those without it. The hidden assumption

in this interpretation is the notion that the Revolution instituted the principle of equality of condition. The class conflicts that are said to have taken place were aimed, in this view, at achieving equality of condition.

One of the main areas of impact of this revisionist view of American history has been in interpreting pre-Civil War society. Of course that era was a time of very rapid change in American society as it began to make the transition from an agrarian base to an industrial one. But the question is how to evaluate these changes. Is the fact that many people were able to climb the social ladder evidence of class conflict? Contemporaries did not view it that way. Many could build better houses, save money, take trips, and more, but such social development does not imply class conflict.

The class conflict writers have imposed their bias upon the evidence from the period to create their own vision of society. These writers are a product of their age, a time when it was intellectually respectable to reject the Protestant Ethic, to reject the philosophy of the Founders, and to embrace leveling concepts in the tradition of the French Revolution and in the tradition of Marx.

Turn now to Douglas Miller's comments on the problem in his *Jacksonian Aristocracy*. Though

Miller's purpose in writing was merely to correct some errors of other writers in the class conflict tradition of interpretation, he does establish the point we wish to emphasize. Miller states, "To write of the rise of aristocracy in Jacksonian America is to contradict traditional beliefs and interpretations." Conscious of his disagreement with some in the class conflict school, he continues, "Politically this was the age of democracy as historians have repeatedly emphasized." Noting the main theme of those he criticizes, Miller states, "Most political studies of the Jacksonian era have implied that democracy was victorious not only in the political realm but socially and economically as well." Coming to the heart of his argument, Miller concludes:

This study does not deny that representative political institutions based upon nearly universal white manhood suffrage were the rule from the Jacksonian era to the Civil War. Politics is given very minor consideration here. What is questioned, however, is the assumption that throughout this period democracy meant social and economic equality as well as equal political rights.<sup>12</sup>

### Equal Opportunity

Social and economic equality was not a constitutive principle of the American system created in the Revolution and embodied in the Con-

stitution. Inequalities in America did exist, but they were not based upon a feudal hereditary nobility as they were in Europe. Inequalities were obvious in such things as "wealth, rank, manners, dress, speech, family, and intellect," Miller observes. Of these, says Miller, "Wealth was the outstanding criterion for high social standing, and as long as inequalities of wealth were comparatively slight . . . it was easy for Americans to associate political democracy with equality."

Concerning equality, Miller observes further that "the concept of equality itself had a meaning peculiar to America. As a belief it did not imply that the rich should be reduced to the level of the poor." Here, it must be pointed out, we see one of the principal differences between twentieth-century equalitarianism and the ideas of equality in the nineteenth century. Equality was not a device to be used for erasing of social distinctions. Continuing, Miller captures the essence of the idea in that age when he notes that "equality meant that each person should have an equal chance to outstrip his neighbor and become rich himself."<sup>13</sup>

The point Miller is making needs to be emphasized. He argues that while there was great interest in the idea of equality in this age, it was defined in a way very different from that in a later age. Equality was tied

to opportunity and in this sense it was closely related to the fundamental concept of the American Revolution, namely, freedom. In this age each man wanted to be free to seek a better life, he wanted to have an equal chance to rise on the ladder of well-being. Americans could see the expansion of economic wealth around them and they wanted to be free to gain part of it for themselves. Miller states this another way when he says, "The most important single factor in shaping and sustaining American equality and democracy was this accessibility of wealth."<sup>14</sup>

Others have found what Miller has noted concerning equality in this era. Alan Grimes states that "to the extent that there was an underlying and unifying theme to the Jacksonian movement, it existed in an emphasis on equality." The Jacksonians did not believe that men were equal in talents or capacities, or that they ought to share equally in property, according to Grimes. Jacksonianism, broadly conceived, was a reaffirmation of the principles of the Declaration, especially that portion that spoke of an equal right to pursue happiness.

Most foreign travelers observed these qualities in America, sometimes being confused by them. Michel de Chevalier, traveling in 1833, observed that the democratic spirit was infused into all the habits and customs of society, and it "beset



and startled" the foreigner who had his every nerve and fiber steeped in European aristocratic ways. A British sea captain noted in his diary in 1839 that "among the advantages of democracy the greatest is that all start fair," by which he meant that all have an equal opportunity.<sup>15</sup>

### Politically Equal

James Fenimore Cooper also commented on the question of equality in this era. Though Cooper was suspicious of much of the hubbub of day-to-day politics, he gave thoughtful considerations to the place of equality in the reform movements of that day. He made it clear that equality meant neither reducing all men to the lowest level of mediocrity nor raising all men to the highest level of superiority. Democracy, a much discussed topic at the time, meant an equal right to participate in community affairs. Equality was a matter of civil and political rights in his view; not an equality of talent or property. In short, Cooper embraced a view of equality like that of the Founders.<sup>16</sup>

Benjamin Franklin had pointed out long before that there was an inconsistency between the claims of the Declaration and a system that extended freedom and equality to only part of the human race. This inconsistency came to haunt American society in the early decades of the

life of the new nation. The fact that slaves in America were black was convenient for those who wished to avoid extending freedom and equal opportunity to them, for it could be argued that it was their color that made them different, thus a rationale for enslavement. But this argument merely put off the day when American society would have to face up to the inherent inconsistency that Franklin had pointed out. The fact is, however, that the deeply held commitment of Americans to equality of opportunity was the basis for the Abolition Movement that was so prominent in the life of the new nation. In time, the inequality of opportunity for Blacks became a principal political issue in the life of the nation, leading to the Civil War and the Emancipation Proclamation.

Lincoln, though believing that Negroes were inferior in some ways, found a way to explain why they should not be slaves. The writers of the Declaration of Independence meant, he said, to include all men in their declaration of human equality,

but they did not intend to declare all men equal in all respects. They did not mean to say that they were equal in color, size, intellect, moral developments, or social capacity. They defined with tolerable distinctness in what respects they did consider all men created equal—equal with certain inalienable rights, among which are life, liberty, and the pursuit of

happiness. This they said and this they meant. They did not mean to assert the obvious untruth that all were then enjoying that equality, nor yet that they were about to confer it immediately upon them. In fact, they had not power to confer such a boon. They meant simply to declare the right, so that the enforcement of it might follow as fast as circumstances should permit. They meant to set up a standard maxim for free society, which should be familiar to all, and revered by all; constantly looked to, and even though never perfectly attained, constantly approximated.<sup>17</sup>

He spoke of the same problem in one of his debates with Douglas when he stated:

I agree with Judge Douglas that he is not my equal in many respects—certainly not in color, perhaps not in moral or intellectual endowment. But in the right to eat the bread, without the leave of anybody else, which his own hand earns, he is my equal and the equal of Judge Douglas, and the equal of every living man. . . . If the Negro is a man, why then my ancient faith teaches me that “all men are created equal,” and that there can be no moral right in connection with one man’s making a slave of another.<sup>18</sup>

Here Lincoln tied the issue of equality to the traditional view of natural rights, as expressed in the Declaration. Next he proposed equality of opportunity as an integral part of his argument, applying both of these to the question of slavery. Typically, Lincoln gave evidence of thinking

clearly about a question that few others saw very well.

### Equality in Post-Civil War America

In the years after the Civil War the dominant intellectual change was in the direction of acceptance of the Darwinian assumptions about the nature of man and society. On the one hand, the descent of man implied a common origin, in a way that the Creation account had not. On the other hand, the claim that the fit survive seemed to support an emphasis upon inequalities, indeed, that inequality was a law of nature. Evolutionary views valued superiority more than they did equality; the strong and the weak were unequal, and nature intended it that way. And there was, in the evolutionary mind, a great emphasis upon nature; devices, such as government programs which altered nature’s ways were viewed with suspicion. Huxley wrote, “Men are not all equal under whatever aspect they are contemplated, and the assumption that they ought to be considered equal has no sort of *a priori* foundation.”<sup>19</sup>

There was a sense in this era that a proper understanding of equality was at last possible. Wrote William Graham Sumner, “The doctrine that all men are equal is gradually being dropped, for its inherent absurdity.” Nicholas Murray Butler’s *True and False Democracy* stated that the

"cornerstone of democracy is natural inequality, its ideal the selection of the most fit." Barrett Wendell argued that the doctrine of equality was alien to the American tradition and derived from the untrustworthy philosophic "vagaries of Eighteenth-Century France." Lothrop Stoddard stated that "the idea of natural equality is one of the most pernicious delusions that has ever afflicted mankind." Further, he said, "Nature knows no equality. The most cursory examination of natural phenomena reveals the presence of a Law of Inequality as universal and inflexible as the Law of Gravity."<sup>20</sup>

These writers did not intend to deny completely the notion of equality as stated in the Declaration. Rather, they intended to emphasize equality of opportunity as opposed to equality of condition. True equality, said Sumner, "sets each man on his feet and gives him leave to run." It would be a mistake to go beyond this conception, he argued. Lester Frank Ward agreed when he suggested that "equality of opportunity is the only means of determining the degree of merit" among individuals.<sup>21</sup> Equality of opportunity must be viewed in practical functional terms, they believed. Equality at law, equality in voting, and equality of economic opportunity were the principal concerns of these commentators.

### "Looking Backward"

In this age there were dissenters from this view, namely, that equality meant equality of opportunity. Some, like Edward Bellamy, author of the best selling *Looking Backward*, argued for equality of condition. In this, Bellamy may be viewed as taking the first step in the creation of "New Style" Progressivism. Bellamy wrote in his novel *Equality* (1897) that he intended to prove that "equality is the vital principle of democracy," of American society. "What is an equal right to life, but a right to the equal material basis for it?" he asked as narrator in the book. "The cornerstone of our state is economic equality, and is not that the obvious, necessary, and only adequate pledge of these three birthrights—life, liberty, and happiness?" In this Bellamy was giving equality a new meaning. In fact, he was arguing for equality of condition. All men, he thought, should have an equal state in life's race. They must be provided with clothing, shelter, food, health, education, and all else necessary to life. Then men would really have an equal opportunity, argued Bellamy.<sup>22</sup>

We have argued that equality in America has traditionally meant equality of opportunity in the sense that the men of the Revolution viewed it. We noted, further, that due to a growing influence of the Enlightenment tradition, equality has

now come to mean equality of condition, that is, that everyone must live in conditions that are as nearly equal as is possible. Yet, we miss much of the meaning if we do not realize that equality of condition has become a "goal" of reformers in our time, and realize that they intend to achieve this goal through the "agency" of governmental power.

Is this not what is taking place with programs such as Affirmative Action and OSHA? All too obviously such programs are based upon the massive power of the government for the achievement of their goals. Are not the goals of such programs aimed at achieving "equality of condition"? Surely, Affirmative Action seeks to level society into one in which all citizens are as nearly equal as is possible. Surely such a program is a classic example of the reform tradition which believes that the good life will be achieved only through the use of governmental power to insure equality of condition. But what happens to freedom in this scheme of reform? Where are the rights and liberties which the Founding Fathers fought for and sought to preserve in the Constitution? Can anyone doubt the fact that these freedoms are seriously eroded by programs of reform that have equality of condition as their goal?

What is the future of American society when it continues to be driven by the philosophy of reform

which advocates equality of condition achieved through the agency of government? Where will it lead? Americans should ponder the possibility that following this plan we can arrive at conditions which George Orwell described in his *Animal Farm* when he said "All animals are equal, but some are 'more equal than others.'" Who are the ones in society who are "more equal than others"? We cannot avoid the conclusion that this class of people is the well-intentioned employees of the government who design and enforce government programs aimed at establishing equality of conditions.<sup>23</sup>

### The Alternative

There is an alternative to the continued growth of government programs aimed at creating conditions of equality. The American people still have the means to arrest this process. They can object to their Congressmen. They can protest against government programs in the Courts. They can complain about government intrusion into their lives in the public press. Most important, however, Americans can return to their senses and realize that most of these programs are the result of an alien perspective, alien to the tradition of the Founders.

The Founders spoke of *limited government* and of *freedom* because they thought and acted in the Re-

formation tradition. In this tradition, men know that all conditions of life cannot be changed, much less changed by the power of government. In this tradition, men know that some conditions can be changed only when there is a change in the hearts and minds of people. Kierkegaard had this in mind when he said of equality:

Leveling, after all, was only the final phase of a long and ill-conceived effort to solve in worldly ways problems which could only really be approached religiously.<sup>24</sup>

Without an appreciation of this view, without an appreciation of the tradition of the Founding Fathers, it will, no doubt, not be long before the drive to achieve equality of condition in America results in the creation of a brave new world in the country that once was the land of the free and the home of the brave. ☉

### —FOOTNOTES—

<sup>1</sup>Sanford A. Lakoff, *Equality in Political Philosophy* (Cambridge, 1964), p. 89.

<sup>2</sup>George L. Abernethy, *The Idea of Equality: An Anthology* (Atlanta, 1959), p. 137.

<sup>3</sup>*Ibid.*, p. 138.

<sup>4</sup>Russel B. Nye, *The Almost Chosen People: Essays in the History of American Ideas* (East Lansing, 1966), includes a chapter entitled "American Society and the Idea of Equality," which is most provocative. I am indebted to Professor Nye for this discussion of colonial influence on the idea of equality in America. See pp. 312ff.

<sup>5</sup>*Ibid.*, p. 312.

<sup>6</sup>L. John Van Til, *Liberty of Conscience: The History of a Puritan Idea* (Philadelphia, 1972), p. 58.

<sup>7</sup>*Ibid.*, p. 86.

<sup>8</sup>Nye, p. 316.

<sup>9</sup>Adrienne Koch, *Power, Morals, and the Founding Fathers: Essays in the Interpretation of the American Enlightenment* (Ithaca, 1961), p. 26.

<sup>10</sup>Nye, p. 317.

<sup>11</sup>*Ibid.*, p. 318.

<sup>12</sup>Douglas T. Miller, *Jacksonian Aristocracy: Class and Democracy in New York 1830-1860* (New York, 1967), pp. vii-x.

<sup>13</sup>*Ibid.*, p. ix.

<sup>14</sup>*Ibid.*, p. 19.

<sup>15</sup>Nye, p. 319.

<sup>16</sup>*Ibid.*, pp. 322-323.

<sup>17</sup>*Ibid.*, p. 332.

<sup>18</sup>*Ibid.*

<sup>19</sup>Thomas Henry Huxley, "On the Natural Inequality of Man," *Nineteenth Century* CXLV (Jan. 1890), p. 8.

<sup>20</sup>Nye, p. 334.

<sup>21</sup>*Ibid.*

<sup>22</sup>*Ibid.*, pp. 336-337.

<sup>23</sup>L. John Van Til, *The Promise of American Life Revisited: An Essay* (Grove City, 1976), p. 6.

<sup>24</sup>Lakoff, p. 177.

### The Indispensable Condition

THE true end of man—not that which capricious inclination prescribes for him, but that which is prescribed by eternally immutable reason—is the highest and most harmonious cultivation of his faculties into one whole. For this cultivation, freedom is the first and indispensable condition.

WILHELM VON HUMBOLDT

IDEAS ON



LIBERTY

# The Future That Doesn't Work

OLE-JACOB HOFF, a Norwegian devotee of Leonard Read's "freedom philosophy" who is a frequent speaker at Mont Pelerin Society meetings, has a recurrent bad dream. He sees his country becoming wealthy on State-owned North Sea oil. The income, he fears, will be used by the government to buy the controlling shares of what is left of free enterprise in an already heavily socialized country.

It's a sobering thought, but maybe Ole-Jacob Hoff's nightmare about Norway's future will also come true in a slightly different way for England. Leslie Lenkowsky, a contributor to a fine little book, *The Future That Doesn't Work: Social Democracy's Failures in Britain*, that has been edited by R. Emmett Tyrrell, Jr. (Doubleday, 245 Park Avenue, New York, N.Y. 10017, \$6.95), raises the possibility that North Sea oil may make "social

spending" in England "as manageable as it was a decade ago." If this is to happen we will have more confusion. For, on Lenkowsky's own evidence, "social spending" even where it seems to be working is accompanied by a channeling of energies into "less productive endeavors." Thus, to bail Britain out in its cradle-to-grave welfarism would do Britons themselves a vast disservice.

Oil may postpone the day of reckoning in Britain, but Mr. Tyrrell's contributors have no illusions about mitigating circumstances when it comes to Britain's future. The trouble with British welfarism is that it destroys the incentive that is needed to create the surplus to pay doctors and teachers, to provide for insurance, and to renovate deteriorating physical plant. As Mr. Tyrrell, who is the bright editor of *The American Spectator*, notes in his introduction,

the whole business of welfarism, when it becomes a matter of State guarantee, must result in a contradiction in terms. Britain has paid for its cradle-to-grave security with high inflation, a straitened rate of productivity, high unemployment, and a steadily increasing crime rate.

The ironies connected with the British drive for equality are delicious. Instead of supporting a landed aristocracy, or a funded upper middle class, Britons are now supporting the "new lads on top"—i.e., an overweeningly arrogant bunch of trade union leaders. Peregrine Worsthorpe describes the new labor aristocracy for Mr. Tyrrell in some chortling prose that recalls H. L. Mencken at his best. The British trade unions "have a cause that excuses excess . . . just as Popes in the Middle Ages got away with murder, claiming to be doing God's work, so today do trade union leaders enjoy a comparable kind of immunity and protection, because they are doing the modern equivalent of God's work."

### **Dull Dogs of Fabianism**

"Liberal squeamishness," says Mr. Worsthorpe, lets the union bosses get away with it. Colin Welch in another essay, traces this squeamishness back to "dull dogs like Sidney and Beatrice Webb, Harold Laski, John Strachey, R. H. Tawney and Anthony Crosland."

These "dull dogs" did not "see poverty and toil as the natural or original state of affairs, in which capitalism found nearly everybody and from which it has rescued many." No, they were profoundly ignorant of their forebears' "struggles, skills, services, and achievements." The dull dogs of Fabianism thought the wealth had been there just for the taking, and all they could contribute was a guilt complex that tried to explain their ancestors' enterprise as simple expropriation, not as plain hard work.

Welch is just as amusing as Peregrine Worsthorpe in the ways he lays about him. His "dull dogs," the intellectuals, are wide open to the charge of hypocrisy. George Bernard Shaw, for example, was a "vast and greedy acquisitor." John Strachey, a "Stalinoid Marxist" before he simmered down and became a Labour Minister, was "rich throughout." The patrician Tawney "sneered at the common vulgarity and bad manners of businessmen, though when shopgirls were rude he applauded."

None of the Fabian intellectual pioneers was capable of "grasping the role of risk-taking and profit-or-loss-making in the maintenance of economic efficiency and above all in innovation." The Fabian ideal was to substitute for the enterprising individual a society dominated by "swarming hives of bureaucrats and

busybodies and experts, their snowstorms of paper, their echoing wastes of gassing and boredom, their pandemonium of ceaseless but sterile controversy."

### **Powell's Law**

Aneurin Bevan, who piloted the National Health Service legislation through Parliament, was neither a dull dog nor a hypocrite, but his handiwork has misfired. Harry Schwartz, in his contribution to Mr. Tyrrell's symposium, leaves no doubt about that. "The potential demand for care," says Mr. Schwartz, "can bankrupt any nation that attempts to provide it free of charge." Mr. Schwartz says Aneurin Bevan never understood that "if patients need not pay directly for medical care, they will resort to it for the trivial indisposition as well as for the serious illness." Enoch Powell formulated it in "Powell's Law" when he said the "demand for 'free' medical care" must quickly outrun "any possible provision for it." The consequence of "Powell's Law" is that England now has 26,000 doctors trying to administer to tens of millions of patients. The waiting time for surgery has steadily lengthened, and the chances of getting a hospital bed in an England that has ceased to build hospitals diminish year by year.

Instead of producing a more moral society, welfarism has encouraged

envy, grabbing and a cheap exaltation of Robin Hood as a national hero. James Wilson, in his contribution to the Tyrrell volume, notes that the crime trends in London, while they are not comparable to the increase in violence in American cities, are nonetheless "ominous." Muggings in London went from 674 in 1968 to 1,544 in 1972. The totals, by American standards, may be small, but the increase, in a society celebrated for its respect for the person, is nonetheless disconcerting.

Are we about to have a conservative revival in England? The intellectual atmosphere would suggest that the day of the Fabians is done. The Worsthornes and the Colin Welches are doing the most vigorous polemical writing in contemporary London. But the "British disease," sometimes known as "Englanditis," hangs on. Irving Kristol, in the final essay in Mr. Tyrrell's book, writes an "obituary" for the idea of socialism, but he still sees the "dead idea" of the Fabians as something that "has to be removed and buried."

Only liberal capitalism, says Kristol, can perform the funereal task. The trouble is that liberal capitalism regards such a task as an essentially "private affair." It will have to change its attitude if the death of socialism is to mean something more than "general disintegration." ⊕



# the Freeman

VOL. 28, NO. 6 • JUNE 1978

- Humane Values and the Free Economy**                      **Edmund A. Opitz**                      **323**  
How well does a free economy serve our higher ends?
- You Cannot Get Even**    **Hans F. Sennholz**                      **335**  
That I have been taxed does not entitle me to restoration by taxing others.
- What Is Happening to Old-Fashioned  
Charity?**    **Wesley H. Hillendahl**                      **339**  
Comparing the results of "social welfare" versus voluntary giving.
- The Road to Jericho**    **Hal Watkins**                      **346**  
The story of the Good Samaritan and its lessons for us today.
- World in the Grip of an Idea**  
**18. The United States:**  
**A Republic and Gradualism**    **Clarence B. Carson**                      **349**  
Concerning obstacles governments have thrown in the way of private enterprise.
- Who Killed Cock Robin?**    **John C. Sparks**                      **363**  
The demand for political welfare measures destroys job opportunities.
- The Silver Panic**    **Lawrence W. Reed**                      **366**  
How government price maintenance of silver under bimetallism led to the panic of 1893.
- Book Reviews:**    **378**  
"Vision" by Leonard E. Read  
"The War Against the Automobile" by B. Bruce-Briggs

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Edmund A. Opitz

# Humane Values and the Free Economy

THE average American is in favor of freedom and he'll tell you so in no uncertain terms. He wants Church and State separate, he would object if government were to censor the press, he doesn't want some bureaucrat dictating to professors what they should teach. But at the same time he wants government to control and regulate business; he thinks industry and trade need to be policed in order to protect the consumer from the wolves. Warming up to his subject he proceeds to catalogue the wickedness of people engaged in commercial activity, and especially the sins of "big business."

Strange to say, these turn out to be the same old sins one finds in

every walk of life. Some men in the business world are wicked, no doubt; but so are some ministers, some professors, some publishers, some entertainers, and even some television commentators. There's no reason for singling out businessmen—except to provide a specious rationale for saddling economic life with ever more bureaucratic regulations and controls. This has adverse economic effects, of course, adding to the costs of doing business and making all of us poorer, but that's not the worst of it. When economic enterprise is not free every other freedom is in jeopardy.

Human liberty is a precious and a fragile thing. Human liberty can not be won, or even sustained, on the economic level alone; but it can be lost on that level, and it is being lost there. Control the economic life of a

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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*.

people and you control every other aspect of their lives as well. "Power over a man's subsistence amounts to a power over his will." The truth of this ancient maxim has been pounded home in our time by the conditions of life behind the Iron Curtain.

Now, it is true that business is not the only sector of our society under fire. Our whole civilization—western civilization—has been under siege for several generations; and because our culture so largely embodies bourgeois values, the attack against business is reinforced by the revolutionary Communist thrust to unseat the bourgeoisie.

The bourgeoisie are the middle class—townspeople engaged in industry and trade—and their emergence in the modern period was opposed by the aristocracy, whose values were quite different. Few of us live next door to counts, dukes or lords: the nobility is distant in time and space, glowingly enshrined in romance and myth. "The nobleman has courage, spends without counting, despises petty detail. There is a great air of freedom and unselfishness about the nobleman. He will throw his life away for a cause, not calculate the returns. That is the noble *idea*. In reality, he lives by the serfdom of others, and he broadens his acres by killing, and taking other people's land—the good old rule, the simple plan. That they should take

who have the power, and they should keep who can." These are Jacques Barzun's words.

Dr. Barzun continues, "The bourgeoisie opposed such noble free-handedness and supported a king who would replace 'the good old rule' by one less damaging to trade and manufacture—and to the peasants' crops. But the regrettable truth is that there is no glamour about trade. Trade requires regularity, security, efficiency, an exact *quid pro quo*, and an exasperating attention to detail. . . . There is nothing spontaneous, generous or large-minded about it. Man's native love of drama rebels against a scheme of life so plodding and resents the rewards of qualities so niggling."

"What a convenient word is bourgeois!" Barzun observes. "How expressive and well-shaped for the mouth to utter scorn. And how flexible in its application—it is another wonderful French invention!"

### The Working Class

The free enterprise system—or what is popularly called "capitalism"—has a special affinity for the type of man we'd call bourgeois or middle class. Industry and trade have never been the preoccupation of any aristocracy, which dislikes to sully its hands with ordinary work. Most of the world's work today is done by those

who have risen from the ranks, largely by their own efforts, in societies which have no rigid caste barriers to prevent upward mobility.

The emergence of the businessman during recent centuries was not a solitary adventure; the freeing of the business sector of western society went hand in hand with the expansion of other liberties we cherish. The story is a familiar one, and it begins with the religious revolution of the 16th century which led eventually to the separation of church and state, and freedom of worship. Free speech and freedom of the press were parts of this liberating movement, and eventually—as Mercantilism gave way before the current of ideas released by Adam Smith, Edmund Burke, and others—economic enterprise was freed from political regulations and controls, and came under consumer guidance.

Consumers—by our millions of daily decisions in the market place to buy this or not buy that—project a pattern; and these buying habits of ours give entrepreneurs the clues they need to direct production into this channel or that, in an effort to please customers. In the free economy the consumer is sovereign. You may regard your product as the best gismo available anywhere at any price, but if the consumers don't like it they buy elsewhere and you go out of business. You, as an entrepreneur,

have no power over customers except your ability to persuade and the quality of your product. This is the free market economy, and it is an integral part of the free society.

### **Everyone's Business**

Freedom, we hear it said, is everyone's business, so each of us really does have a stake in freedom-in-general. To the extent that anyone's freedom is lost, everyone's freedom is in jeopardy. But there are particular freedoms, and when a particular freedom is attacked you'd expect those directly involved to rush to its defense. And this is what you *do* find in most instances. When religious liberty is threatened, churchmen unite to oppose the threat. When freedom of the press is imperilled newsmen band together. Any impairment of academic freedom is challenged by teachers, and intellectuals do battle on behalf of free speech. And when freedom of economic enterprise is being throttled by governmental controls businessmen and business organizations mobilize to resist the attack. Right? Wrong!

Businessmen, all too often, are unwilling to speak out vigorously, even in self-defense—as the celebrated economist, Joseph Schumpeter, has scathingly pointed out: "Perhaps the most striking feature of the picture is the extent to which the bourgeoisie, besides educating

its own enemies, allows itself in turn to be educated by them. It absorbs the slogans of current radicalism and seems quite willing to undergo a process of conversion to a creed hostile to its very existence. . . . This is verified by the very characteristic manner in which particular capitalist interests and the bourgeoisie as a whole behave when facing direct attack. They talk and plead—or hire people to do it for them; they snatch at every chance of compromise; they are ever ready to give in; they never put up a fight under the flag of their own ideals and interests—in this country there was no real resistance anywhere against the imposition of crushing financial burdens during the last decade or against labor legislation incompatible with the effective management of industry.”

I can imagine an ideal society where each sector was alert to rebuff threats to any other sector; where clergymen would go to bat whenever freedom of the press was threatened, and publishers jealously guarded academic freedom, and professors fought for freedom of medical practice, and doctors resisted every bureaucratic invasion of the market place, and businessmen cherished freedom of religion. In real life, however, things do not happen this way.

It is partly the fault of business itself that the freedom most gravely threatened right now is the freedom

of the economy, on which not only our prosperity depends, but much else besides. Those immersed in the grubby details of the market place often lose sight of the big picture; the head of a business worries about falling sales and how to meet the next payroll, but here, in this serene academic environment, we can sit back and theorize.

### **Better Understanding, The Best Defense**

The best defense of the free economy is a better understanding of the free economy, shared by more people. So let's put capitalism to the test. Put aside, for the moment, any opinions you may entertain about the free enterprise system we now have, and let's draw up some plans for an ideal economic order. If we were starting from scratch what requirements would we lay down for an economic order that would meet with our approval? I'm going to suggest that there are four major demands we should make of any economic system, and after we have spelled these out a bit each of us can decide for himself whether our present system falls short and how it might be strengthened and defended.

A good economic system has four characteristics:

1. A good economy produces goods and services efficiently.

2. A good economy allocates rewards equitably, to all participants.
3. A good economy broadens the scope for individual free choice.
4. A good economy functions in harmony with religious and moral values.

There's no argument on the first point; our present economic system does deliver the goods, as even its enemies admit. The American economy has never been wholly free; it has operated under various political restraints from the very beginning. But compared to the politically planned economies of other nations our relatively free economy has been a paragon.

Producing and exchanging in a largely free country has bestowed a prosperity upon America that the world envies. Americans started poor. There was little per capita wealth two hundred years ago; but our forebears had an abundant faith in the nation's future under God, a strong belief in themselves, and they practiced the Puritan work ethic. This was the land of opportunity, and millions of the poor and oppressed of other nations migrated here to make their own way in this "land of the free." By and large they succeeded; never have so many advanced so far out of poverty in so short a time.

There have been evils in American life, and some are there still;

along with errors, shortcomings and blindspots. But what other nation is entitled to cast the first stone, or the second, or the third? If the American Dream has faded, if there is tarnish on our idealism, where lies the fault? The Church and the School are the institutions charged with the responsibility for things of the mind and spirit, and if we have lost that vision without which the people perish, if our value system is in disarray, we surely can't blame business and industry—which merely reflect the consensus.

### **The Goals of Life**

The goals of human life, the ends appropriate for creatures such as we, are the primary concerns of religion and education. The increase of material well-being may be the *means* for achieving the good life; it is certainly not the *end* for which life should be lived. The economic order has the modest role of supplying our creaturely needs efficiently so that we may have the leisure to pursue our personal goals. In America the economy has performed its role commendably. It is not to be blamed for the failures of other institutions.

The relatively free economy we have enjoyed in America has brought unparalleled prosperity, but an affluent society is not necessarily a just society. And so we come to the second test we wish to put to the free enterprise system: Does it

allocate the rewards fairly and equitably?

In a free society every one of us is rewarded by his peers according to the value willing buyers attach to the goods and services he offers in exchange. This is the market in action. This market place assessment is made by consumers, and we all know that consumers are ignorant, venal, biased, stupid; in short they are people very much like us! This does seem to be a clumsy way of deciding how much or how little of this world's goods shall be put at this or that man's disposal.

Isn't there an alternative? Yes, there's an alternative, and it occurred to people more than two millennia ago. We'll invite the wise and the good to come down from Olympus to sit as a council among men, and we'll appear before them one by one, to be judged on personal merit and rewarded accordingly. Then we'll be assured that those who make a million really deserve it, and those who are paupers belong at that level; and we'll all be contented and happy. What lunacy! The genuinely wise and good would not accept such a role, and I quote the words of the highest authority declining it: "Who made me a judge over you?"

The market place decision that this man shall earn twenty-five thousand, this one ten, and so on, is not, of course, marked by supernal

wisdom; no one claims this. But it is a million miles ahead of the alternative, which is to recast consumers into voters, who will elect a body of politicians, who will appoint bureaucrats, who will divvy up the wealth—by governmental ledger-main. This mad scheme backs away from the imperfect and lurches into the impossible! There are no perfect arrangements in human affairs, but the fairest distribution of material rewards attainable by imperfect men is to let a man's customers decide how much he should earn; this method will distribute economic goods unequally, but equitably.

We do live in an affluent society, and the fact is that the prosperity generated by our relatively free institutions has been widely shared by the American people. There are the rich, there are the less well to do, and there are still some poor; but this allocation of rewards represents the choices of people themselves—as reflecting their buying habits. But the question still remains; do we have a lopsided society in which a handful of people have accumulated the bulk of the wealth produced in our economy? Dubious statistics are offered to demonstrate that 10 per cent of the people own two-thirds of the wealth, or three-quarters, or 90 per cent, or whatever. Is there any truth in such figures, or do they tell a lie?

There's a fairly simple way to



check this out for yourself. Take home ownership. Is it a fact that a handful of people own the homes most of us live in? To the contrary; 45 million homes are owned by the families that occupy them. Assuming the family unit to consist in father, mother and one child this accounts for 135 million persons. Millions of other Americans can afford to own their homes, but choose instead to rent an apartment or a house. Take automobile ownership: 82 million people own their own cars and 33 million own two or more cars. There are 130 million licensed drivers in the country.

Eighty-three million housing units have electric refrigerators; there are 125 million television sets, 55 million of them color; 70 million homes have washing machines; and there is a radio for every man, woman and child in the country. And as for food, we are the only nation in history whose number one medical problem is overeating! I do not know who concocted the first share-the-wealth scheme. It was ages ago, and it was a pipe dream from the beginning. It is a pipe dream still for most of the world's people. But in America that dream has come true—in large measure. Capitalism—the free economy—has produced material abundance, and the benefits of our prosperity are enjoyed by almost every man, woman, and child in the country—as

well as by millions of people around the globe.

Let me pursue this point through one more stage. Most people, when they reflect on the matter, agree that there is no concentration of ownership in everyday things like houses, automobiles and food. But when they get into the arcane world of the corporation, they are easily misled by those who have twisted "big business" into a four-letter word; they have been led to believe that the industry of this country is owned by a handful of stockholders.

### **Widespread Ownership**

Pick any one of the giant corporations and examine its annual report. I picked Exxon, a fairly large outfit. The 1976 Annual Report reveals that Exxon is owned by approximately 700,000 shareholders; that's roughly 5½ times as many owners as employees, and it's about as many people as live in the whole state of Delaware. That's a lot of people, but there's more to come.

Note the large number of stockholders who are not individuals but institutions. Every major church body owns shares of stock in industry, but in some statistics a denomination counts as but one stockholder. Several thousand colleges own stock, but each is counted as one stockholder. Your local Bank and Trust Company is a stockholder on behalf of its thousands of depos-

itors; every insurance company owns stock on behalf of its millions of policy holders; every pension fund is invested in stocks. Pension funds, including labor union funds, now own about one-third of the total value of all the stocks listed on the New York exchange. The unions have come to own so large a share of American industry that Peter Drucker refers to this phenomenon as "pension fund socialism." In short, nearly every American owns a chunk of the corporate wealth of America!

Now, it is true, of course, that there are some enormously rich people in this country. What do they do with their money? Some of them spend their money foolishly, just as you and I would do if we were in their shoes. But any millionaire who wants to preserve his fortune and pass it along to his children and their children, has no choice but to invest it in industries which produce the incredible variety of goods which flood the market places of America soliciting the patronage of the masses of consumers. No other society has ever allocated its rewards as generously, or so equitably.

Our present economic system, the system of free enterprise, has met our first two requirements; it has made us an affluent society producing over and above our own needs, an abundance that we have generously shared with the world; and

every person who has participated in the production of goods and services shares equitably in the fruits of his production.

The third test has to do with an aspiration deeply rooted in human nature; we want to be free; we want the freedom to choose. We want to be free to worship in the church of our choice, to choose our own schools, to read freely and speak our minds. We want to be free to be ourselves, even if this is to practice what others regard as our harmless eccentricities. We want to be free to choose our profession or place of employment. We want solitude when we choose to be alone, and we want the freedom to choose our associates—which includes the right to dissociate. These are some of the demands of human nature itself, this is how God made us. As Jefferson put it, "The God who gave us life gave us liberty at the same time." Therefore, the third demand we make of an economic order is that it manifest, in its operations, a creature who is a freely choosing being.

### **By Acts of Choice**

Man's will is uniquely free. All other creatures—birds, beasts, fish, and so on—obey the laws of their nature willy-nilly. Only man has the capacity to disobey the deep mandates of his being. Ortega, the great Spanish philosopher, remarked that the tiger cannot be de-

tigered but the human being is always in danger of being dehumanized. It is by acts of will, by acts of choice, that man is humanized; and this decision process, in the nature of the case, must be engineered by the individual concerned—by an act of inner resolve. Each person is self-controlling, he is in charge of his own life; and if a person refuses to assume responsibility for himself no one can exercise this role by proxy, from the outside.

The free society is our natural habitat; freedom accords with human nature, and the tactic of freedom as it applies in the economic sector is capitalism, the market economy. The economy is free when the productive activities of men respond sensitively to the needs of consumers, as these needs manifest themselves in people's buying habits. It is true, of course, that when people are free to spend their money as they please they will often spend it foolishly—other people, that is! They'll make mistakes. But isn't that one of the important ways we learn in life, by being free to make mistakes, picking ourselves up every time we fail and standing a bit taller every time we succeed?

The biggest mistake of all is to persuade ourselves that we can avoid the little mistakes people make in a free society by adopting a planned economy. A centrally

planned nation is necessarily a command society. Individual persons are no longer free to make their own decisions, their private plans must be cancelled whenever they conflict with the overall political plan. This is a giant step along the road to serfdom.

### **No Guarantees**

To have economic freedom does not, of course, mean that you will be assured the income you think you deserve, or the job to which you think you are entitled. Economic freedom does not dispense with the necessity for work. Its only promise is that you may have your pick from among many employment opportunities, or go into business for yourself. And as a bonus the free economy puts a multiplier onto your efforts, to enrich you far beyond what the same effort returns you under any alternative system.

The American economic system—free enterprise, capitalism, the market economy, call it what you will—has never been as free as the believer in the free society would wish. But it aspires toward freedom, as do most citizens of our country; and our economy has indeed been freer than the economies of other nations. But despite the restrictions and controls, our relatively free economy has (1) delivered goods and services efficiently; it has (2) allocated rewards equitably; and (3) it

does expand opportunities for personal choice in society.

There is one final point. Americans are basically a religious people who try to bring moral values to bear on the issues of public life. Does a person have to put aside his religious and moral values while engaged in the sordid business of making a living—as some misguided voices declare? Or is there, as I believe, a vital relationship between market place and altar? No man's judgment can rise above his understanding of the facts; and as I have pointed out, there is gross misunderstanding of the nature of business and the economy—especially, it seems, among those given to pronouncing moral judgments!

Biblical religion has at least three important and relevant criteria for judging social policy:

- (a) the idea of justice voiced by the Old Testament prophets;
- (b) the New Testament ideal of the sacredness of persons (i.e., Rights endowed by the Creator); and
- (c) the Protestant emphasis on the importance of personal decision—you are closed to God's grace until you decide to open yourself up.

Put these ingredients together in the proper proportions—justice, the sacredness of persons, and the necessity of choice—and you have

the free society. The political structures of a free society are designed to assure the inviolability of every person. They maximize his opportunity to pursue his personal goals, and they cultivate an economic order that is guided by consumer demand. This was the social goal envisioned by the eighteenth-century Whigs, the men we refer to as the Founding Fathers. What they founded was prepared for by eighteen centuries of tutelage in biblical religion.

### **Questions Concerning the Morality of Capitalism**

This may sound good, the critic tells us, but doesn't the psychology of capitalism take the wraps off greed, and doesn't capitalism elevate money-making to the chief end of man? And didn't Jesus condemn wealth?

The answer to all three questions is No. As my first witness I call upon the eminent sociologist, Max Weber, and quote from his celebrated book, *The Protestant Ethic and the Spirit of Capitalism*. "The impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism. This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars. It should be taught in the kindergarten of cul-

tural history that this greed for gain is not in the least identical with capitalism, and is still less its spirit." Greed is a human frailty, to be condemned where found and overcome if possible. It is not the exclusive vice of any class or occupation. In any event, it has nothing to do with the efficient production of goods and services in the capitalist order and their equitable distribution.

My second witness is the eminent theologian, Reinhold Niebuhr. Late in life, after being converted away from Socialism, Niebuhr made a sage comment on the profit motive. Even the minister is economically motivated, he wrote, "when he moves to a new charge because the old one did not give him a big enough parsonage or a salary adequate for his growing family."

We can better understand Jesus' attitude toward material possessions if we contemplate a seeming paradox: Jesus had harsh things to say about the three R's; the three R's in this case being Religion, Righteousness, and Riches! We learn from the Gospels that something which resembles religion, but which is ritualistic and external, may immunize us against the real thing, which is inward and spiritual.


Which of us does not feel, at times, the exasperation which caused a member of Parliament to blow his top and say: "Thank God for the

Church of England; it's all that stands between us and Christianity!" And by the same token, perfunctory righteousness—Pharisaism—may harden the heart and beget an uncharitable spirit. Riches, too, may pose a peril; but this is a matter of degree only, for it is just as common to be infected with a false philosophy of material possessions by a thousand dollars as by a million. Avarice is a common trait in all cultures and at every economic level. There are misers everywhere, and a miser is one who puts his trust in riches, and in so doing he treats means as an end.

This is the point of Jesus' parable of the rich man whose crops were so good that he had to build bigger barns. This good fortune was the man's excuse for saying, "Soul, thou hast much goods laid up for many years! take thine ease, eat, drink, be merry." There is a two-fold point in the parable; the first is that nothing in life justifies a man in assuming this attitude; we must never stop growing. It has been well said that we don't *grow* old, we become old by not growing. The second point is that a material windfall may tempt a man into the error of quitting the struggle for the real goal of life. Jesus condemned the man who put his *trust* in riches, who "layeth up treasure for himself and is not rich toward God." Which is not the same as condemning material possessions

*per se*, or wealth held under proper stewardship.

Life is probative; our three score years and ten are a test run. As St. Augustine put it, "We are here schooled for life eternal." And one of the important examination questions concerns the economic use of the planet's scarce resources and the proper management of our material possessions. These are the twin facets of Christian stewardship, and poor performance here will result in dire consequences. As Jesus put it, "If, therefore, you have not been faithful in the use of worldly wealth, who will entrust to you the true riches?"

Economics, the science of means, needs religion, the science of ends. To inflate a means into an end is idolatry. In sober truth, no economic system can be anything more than a means. The ends for which life should be lived take us into another dimension, into the domain of our moral and religious life. As created beings we are designed to achieve a transcendent end: "Thou hast made us for Thyself, and our hearts are restless until they find rest in Thee." But if we are to live as we should live during this life, we must be free; and one of the imperatives of the free life is freedom of economic enterprise. 

### Material Rewards

IT SEEMS TO ME one of the great merits of a free society that material reward is *not* dependent on whether the majority of our fellows like or esteem us personally. This means that, so long as we keep within the accepted rules, moral pressure can be brought on us only through the esteem of those whom we ourselves respect and not through the allocation of material reward by a social authority. It is of the essence of a free society that we should be materially rewarded not for doing what others order us to do, but for giving them what they want. Our conduct ought certainly to be guided by our desire for their esteem. But we are free because the success of our daily efforts does not depend on whether particular people like us, or our principles, or our religion, or our manners, and because *we* can decide whether the material reward others are prepared to pay for our services makes it worth-while for us to render them.

IDEAS ON



LIBERTY

# YOU CANNOT GET EVEN



GOVERNMENT affects individual incomes by virtually every decision it makes. Agricultural programs, veterans' benefits, health and labor and welfare expenditures, housing and community development, federal expenditures on education, social insurance, medicare and medicaid programs, and last but not least, numerous regulations and controls affect the economic conditions of every citizen. In fact, modern government has become a universal transfer agency that utilizes the political process for distributing vast measures of economic income and wealth. It preys on millions of victims in order to allocate valuable goods and services to its beneficiaries. With the latter, transfer programs are so popular that few public

officials and politicians dare oppose them.

The motive powers that drive the transfer order are as varied as human design itself. Surely, the true motives are often concealed, and a hollow pretext is pompously placed in the front for show. And yet, man is more accountable for his motives than for anything else. A good motive may exculpate a poor action, but a bad motive vitiates even the finest action. Conscience is merely our own judgment of the right and wrong of our action, and therefore can never be a safe guide unless it is enlightened by a thorough understanding of the implications and consequences of our actions. Without an enlightened conscience we may do evil thoroughly and heartily.

An important spring of action for the transfer society is the desire by

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most people to *get even* in the redistribution struggle. "I have been victimized in the past by taxation, inflation, regulation, or other devices," so the argument goes, "therefore I am entitled to partake in this particular benefit." Or the time sequence may be reversed: "I'll be victimized later in life," pleads the college student, "and therefore I want state aid and subsidy now."

This argument is probably the most powerful pacifier of conscience. It dulls our perception and discernment of what is evil and makes us slow to shun it. After all, we are merely getting back "what is rightfully our own." With a curious twist of specious deduction the modern welfare state, which continually seizes and redistributes private property by force, is defended by the friends of individual liberty and private property. "Man is entitled to the fruits of his labor," they argue, "we are merely getting back that which is rightfully and morally our own." They borrow the arguments for the private property order to sustain the political transfer order.

Surely getting back that which is rightfully and morally our own is a principle that is rooted in our inalienable right to our lives. It is a property right that springs from our human rights and from the right to life itself. It is the right to restoration of the fruits of our efforts and labors of which we are deprived by

deceit, force, or any other immoral practice. It is a specific right to recovery or compensation from those who are wronging us or have injured us in the past.

This right to restoration does not beget the right to commit the very immoral act from which we seek restoration, to imitate others in acting immorally, or to seek revenge against the trespassers or innocent bystanders. But this is precisely what the "get-even" advisors urge us to do.

In an unfortunate automobile accident we are hurt or injured, or our vehicle may be damaged, because of the negligence of another driver. This gives us the right to demand restoration and compensation from the guilty party. But it does not give us the right to seize another car parked in the neighborhood, or return to the road and injure another driver. Or, our home is burglarized and we suffer deplorable losses in personal wealth and memorabilia. This does not bestow upon us the right to do likewise to others. But the "get-even" advocates are drawing this very conclusion.

He who is desirous of "getting even" in the politics of redistribution longs to join the army of beneficiaries who are presently preying on their victims. They would like to get their "money back" from whomever they can find and victimize now.



Like the victim of a burglary who becomes a burglar himself, they are searching for other victims. But in contrast to the new burglar who may be aware of the immorality of his actions, the "get-even" advocate openly defends his motives while he is pursuing his political craft.

We cannot get even with those individuals who deprived us of our property in the past. They may have long departed this life or may have fallen among the victims themselves. We cannot get even with them by enlisting in the standing army of redistributors. We merely perpetuate the evil by joining their forces. So we must stand immune to the temptations of evil, regardless of what others are doing to us. The redistribution must stop with us.

The redistributive society has victimized many millions of people through confiscatory taxation, inflation, and regulation. Government, acting as the political agency for coercive transfer, seized income and wealth from the more productive members and then redistributed the spoils to its beneficiaries. Although many millions of victims and beneficiaries were involved, which often obscures the morality of the issue, the forced transfer took place between certain individuals. It is true, the beneficiaries, who used political force to obtain the benefits, cannot easily be recognized in the mass process of transfer. But even if we

could identify them, and establish a personal right to restoration, our property has been consumed long ago. A vast army of beneficiaries, together with their legions of government officials and civil servants, consumed or otherwise squandered our substance. There is nothing to retrieve from the beneficiaries who probably are poorer than ever before, having grown weak and dependent on the transfer process.

When seen in this light, the get-even argument is nothing more than a declaration of intention to join the redistribution forces. It may be born from the primitive urge for revenge against government, state or society. But it is individuals who form a government, make a state and constitute a society. By taking revenge against some of them for the injuries suffered from the hands of others, I am merely reinforcing the evil.

Revenge is a common passion that enslaves man's mind and clouds his vision. To the savage it is a noble aspiration that makes him even with his enemies. In a civilized society that is seeking peace and harmony it is a destructive force which law seeks to suppress. But when the law itself becomes an instrument of transfer, the primitive urge for revenge may burst forth as a demand for more redistribution. It becomes a primary force that gives rise to new demands or, at least, reinforces the popular demands for economic

transfer. The common passion for revenge, no matter how well concealed, undoubtedly is an important motive power of social policy that leads a free society to its own destruction.

No wealth in the world and no political distribution of this wealth can purchase the peace and harmony so essential to human existence. Peace and harmony can be found only in moral elevation that reaches into every aspect of human life. A free society is the offspring of morality that guides the actions and policies of its members. To effect a rebirth of such a society is to revive the moral principles that gave it birth in the beginning. It is individual rebirth and rededication to the inexorable principles of morality that are the power and the might. The example of great individuals is useful to lead us on the way, for nothing is more contagious for greatness than the power of a great example.

To spearhead a rebirth of our free society let us rededicate ourselves to a new covenant of redemption, which is a simple restatement of public morality. In the setting of our age of economic redistribution and social conflict it may be stated as follows:

- No matter how the transfer state may victimize me, I shall seek no transfer payments, or accept any.

- I shall seek no government grants, loans or other redistributive favors, or accept any.

- I shall seek no government orders on behalf of redistribution, or accept any.

- I shall seek no employment, or accept any, in the government apparatus of redistribution.

- I shall seek no favors, or accept any, from the regulatory agencies of government.

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

- I shall seek no services from, or lend support to collective institutions that are creatures of redistribution.

- I shall seek no support from, or give support to associations that advocate or practice coercion and restraint.

We do not know whether our great republic will survive this century. If it can be saved, great men of conviction must lead the way—men who with religious fervor and unbounded courage resist all transfer temptations. The heroes of liberty are no less remarkable for what they suffer than for what they achieve. ☉



# What Is Happening to Old-Fashioned Charity?

JUST what is happening to old-fashioned charity and why? Perhaps we can gain an insight by looking into current economic and political trends.

In preparing for a discussion of subjects such as philanthropy and charity, which are outside my principal field of economics, I find it informative to go to the dictionary. For "charity" Webster offers "love" as one of the synonyms. Love—a most personal concept. Continuing, Webster offers "kindness" and "help for the needy or the suffering." This definition describes charity as a

most personal, individual, and voluntary concept. Turning to "philanthropy," Webster offers "the active effort to promote human welfare." Note the change in emphasis. The term "welfare" in turn is defined as "good fortune, happiness, well-being or prosperity." Philanthropy moved up a notch from needy and suffering to well-being and prosperity. This concept conveys benevolence, and to a certain extent, individual and voluntary, but tends to be impersonal and a lot less urgent.

In reviewing the first 150 years of this country's history, I would say that Americans could be characterized by terms such as "industrious, productive, self-reliant, independent, humane, kind and charitable."

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### The Freedom Ethic

Americans operated under what has been called the freedom ethic: the freedom to choose, the freedom to try, the freedom to sell, to buy, and even the freedom to fail. Being a compassionate people, they built thin cushions into the system to prevent absolutes. Absolute failure was guarded against through various forms of personal charitable aid.

Today, however, we seem to be faltering; we seem to be confused. In a misdirection of compassion we are substituting for the "freedom to" philosophy, a coercive "freedom from" system. Not only must we prevent people from failing, they must not be permitted to be underprivileged. So we are adopting a series of "freedoms from." For failure we have substituted social welfare, or freedom from insecurity. For buying, we have substituted consumerism, or freedom from exploitation, real or imagined. For selling, the substitute is regulation, or freedom from competition; and for trying, is the freedom from striving which is at the root of the welfare state.

In their compassion, politicians have become adroit at gaining favors for special interest groups. They are fattening the cushions against failure, using taxpayers' money to the point where increasing numbers of people are preferring to fail. For example, compared to a

tax-free unemployment or welfare income of \$120 a week, a worker's income of about \$255 a week is required to break even after deducting withholding taxes, the cost of transportation, parking, clothing, and all the various items which must be paid in order to work. So if a person can't find a job at \$255 a week, why work? Increasing numbers of people are choosing idleness. Why not, when one can make more money by failing? The ability to fail in comfort, of course, requires a bureaucracy to enforce the collection and disbursement of tax money from the workers.

### The Welfare Ethic

This is the welfare state in action. The welfare state is commonly accepted today as the preferred form of government throughout much of the world. England, France, Sweden, the United States, and to an increasing extent Germany and Japan are prime examples. Webster defines the welfare state as one in which the state assumes responsibility for individual and social welfare of its citizens. Note the change in structure. The welfare state bureaucracy enforces a cold, impersonal, involuntary, forceful redistribution of wealth.

Many economists see the welfare state as society in transition. Ludwig von Mises and Nobel laureate Friedrich von Hayek, for example,

have pointed out that such a society must eventually dissolve into a totalitarian command society. You may wonder why they take such a position. They would agree that in contrast to a constitutionally restricted republic wherein the government can do only that which is spelled out in the constitution, under the welfare state there are no constitutional restraints and we can make the government do what we want it to do virtually without limit. This form of government encourages pressure groups to form in society, each seeking a piece of the action. There are endless causes around which pressure groups can rally. The point is that the process only ends when everything is under the control of the bureaucracy which passes out the loot from the public treasury.

As background to the question as to what is happening to charity, once government takes over a particular responsibility, it is a matter of record that the individual citizens are relieved of that responsibility. Individuals are only too glad to relinquish responsibilities so they can devote more time and money to their other responsibilities. Take for example OSHA legislation which administers industrial safety. In Washington last year, a member of the President's Council of Economic Advisors told me the CEA had just completed a study of the impact of

OSHA on industrial accidents. They found the program to be counterproductive; the accident rate was increasing. Why? After years and years of decline, industrial accidents were increasing because industry was turning over the responsibility for controlling industrial accidents to the government. Business, just like an individual, is only too happy to relinquish responsibilities, including accident prevention.

This is precisely what is happening to old-fashioned charity. The welfare state is crowding out charity and philanthropy by systematically taking over responsibilities from individual citizens. Let's look at the record of private philanthropy in the United States over the last 15 or 20 years. The statistics are meager, but during the period between 1960 and 1976 total voluntary contributions in the United States are reported to have increased from about \$8.9 billion to about \$29 billion. The total has been growing in recent years at a rate of about 7 per cent annually, a little more than the current rate of inflation. Over the same period, total personal income in the United States has been expanding at around 9 per cent a year. Seven doesn't keep up with nine by a considerable amount when comparing compound growth rates.

It is clear that the growth in private philanthropy is lagging behind personal income in the United

States. The same is true of Hawaii. The Aloha United Way has increased from \$3.8 million in 1968 to \$6.9 million last year, for an average annual growth rate of about 7.5 per cent. Personal income in Hawaii has been growing at 10.5 per cent. United Way giving is lagging 3 whole percentage points behind the growth in personal income. These comparisons are significant because individuals account for almost 80 per cent of the contributions to charitable organizations.

### **Social Welfare vs. Voluntary Giving**

Comparing reported private philanthropy with government programs in the United States, social welfare payments have risen from a total of about \$24 billion in 1950, to \$286 billion in 1975, and are currently increasing at almost 15 per cent a year. Such payments have accounted for more than half of federal outlays and almost two-thirds of state and local outlays over the last 15 or 20 years. Compared with total personal income in the United States, which has been increasing at 9 per cent annually, welfare payments are skyrocketing. In 1950, total social welfare payments accounted for about 10 per cent of personal income payments in the United States. They now account for close to 25 per cent of personal income, and continuing another 15

years at the same rate will account for 50 per cent of personal income. This means that the government will pay out 50 per cent of the incomes of individuals who are working to individuals who are outside the workforce. Presently, one can readily account for some 60 million people who are receiving some form of state, county or federal aid.

How do the social welfare programs compare with the voluntary programs? In 1950 philanthropy represented almost 20 per cent of the total welfare payments. Today, philanthropy accounts for a little more than 9 per cent. Continuing these trends another 10 to 15 years, the share will drop to 3.5 per cent. Individual charity and philanthropy are clearly being crowded out by the welfare state.

### **Morality at Stake**

Of prime importance is the impact of these trends on individual morality. What is happening to the morality of the individual welfare recipient, and the compassionate social welfare worker who advises ways for the recipient to cheat on welfare? What's happening to the self-reliant individual who was in the mainstream of the American way of life 50 to 100 years ago? Illustrative of the transformation, Community Action Programs actively promulgate the doctrine that an individual is legally and morally entitled to

receive welfare today. It has become one's legal and moral right to accept legal plunder. On the other hand, unless one is willing to accept jail or penalties, the taxpayer is forced to pay his or her taxes. In contrast to the voluntary payments of an earlier period, taxes today are collected coercively.

As the level of taxes and spending by government approaches 50 per cent of the total income of working people, what effect do we observe the tax and welfare burden is having on the attitudes of individuals toward voluntary giving? Indifference and apathy. After all, if the government is taking care of the problem with our tax dollars, why should one bother to contribute to Aloha United Way? At a 10-to-1 ratio, the government is vastly outperforming the private organizations, and with the people's own tax dollars.

### **Roots of the Problem**

An examination of the root causes of the problem would start with the underlying economy which consists of millions of individuals each trying to produce a service or product taken to market to sell to a buyer. In the process, savings or profits are generated, the combination of which are the lubricators of the economic system. These profits go into financial institutions, such as banks, savings and loan associations, and in-

surance companies. Savings and profits are transformed into loans for houses, and plant and equipment where people can live and work. Some of these savings and profits become charitable contributions. The amount depends to a large extent on the level of taxes for operation of the various levels of government.

In 1900, taxes paid to federal, state and county governments amounted to only 9 per cent of personal income, leaving 91 per cent for people to spend as they chose. Individuals had a great deal of latitude as to where they could spend or invest their incomes. Today, government takes almost half of the earnings of the working people. That leaves only half to spend. The effect on savings and profits should be obvious. Savings and profits are being taxed away. As a result, companies can't retain enough profits and they are forced to borrow. Interest rates have risen in the face of the shortage of capital. This makes it difficult for an individual to buy a house when he has to compete with General Motors and all the other industrial borrowers.

Yet, many in their ignorance are prone to call "profit" a dirty word. Their ignorance is compounded by the appearance that there is an abundance of money all around. This in turn gives the appearance of an adequate flow of savings and pro-

fits. The apparent abundance of money is made possible by the nature of the central bank or the Federal Reserve System, which in effect has a license to print money as a substitute for genuine savings. When it prints money faster than the expansion of goods and services in the market, the excess money competes with money and credit already available. The result is a dilution of purchasing power in the form of rising prices. This is what we call price inflation. The accelerating inflation in recent years is clear evidence that savings and profits are too low and the Federal Reserve is being forced to make up the deficit by printing money at accelerating rates.

Continuation of present trends would result in a tax level which will eventually confiscate all of the income of the workers and redistribute it to those on some form of welfare. At some point the system would collapse as more and more workers would refuse to work or pay taxes. The imposition of government controls would become necessary and would likely spell the end of private philanthropy.

### **Money Mania**

In order to avoid such an eventuality, these trends must be reversed, if not for ourselves for future generations who must live in the aftermath of the economic and political

collapse. We must first identify the problem and then select a course of action. Charles Mackay wrote *Extraordinary Popular Delusions and the Madness of Crowds* 135 years ago. A chapter describes what he called "money mania" in France in the 1720's, the classic example of modern inflation.

John Law had a prescription to make France prosperous. His prescription was a central bank which could issue paper money. His proposal was enthusiastically accepted, and for a few years France prospered. However, the bank inflated the money supply to accommodate the speculative Mississippi Bubble. The inflation and bursting "bubble" spread ruin throughout Europe. Again, during the 1790's immediately following the violent French Revolution, the French assignat was printed in unlimited quantities with the idea of restoring prosperity. For a second time "money mania" led to an inflation which bankrupted France and led to the takeover by Napoleon in 1799. In the early 1920's the destruction of the German middle class through monetary inflation brought about the Third Reich.

A total transformation of the economy and political structure occurred each time monetary inflation was attempted. Today, "money mania," a disease of the last three centuries, is running rampant not




in just one country as earlier, but is sweeping the world.

"Money mania" is at the core of the prevailing notion that government can pass laws, increase the money supply endlessly, and spend tax dollars to solve all of society's problems.

### **A Return to Freedom The Critical Choice**

Since government has demonstrated that it compounds every problem it has ever undertaken to solve, the choice is obvious: turn away from this madness and return to the freedom philosophy where individuals are free to solve their own problems. The resultant tax reduction would expand consumer demand to the point where even those reluctant to work would find challenging opportunities. While a remnant of a free society remains, we have a choice. Once the total welfare

state is imposed, we will no longer have the choice. So the time to choose is now.

The job of restoring the freedom philosophy seems difficult, but the alternative is unthinkable—history abounds with the record of failures. Success will provide the opportunity to gain the kind of moral and economic prosperity experienced only in brief periods of history. The release of the creative spirit from its present bondage would carry society to a productive level where the need for charity and philanthropy would become minimal. By the same token, resources would be so bountiful that problems of charitable fundraising would become inconsequential. Such was the faith and dreams of our Founding Fathers. Let each of us start to do his part to insure that this faith is preserved. Let's start now! 

### **If We Need Laws . . .**

IF WE NEED LAWS to make people treat men of other faiths and races as friends; if we need the police power of the secular state to take money from men for human need; if it is believed that the only hope of a city of God is to seek the alternative of a collectivized mass leveled to the lowest common denominator of mentality and ability—if all this be the limit of our hope for mankind, then even such activity is sheer futility, for even if such an effort could be achieved it would have no meaning at all for mankind. This rejection of personal responsibility would prove only that it is possible to make men live like whipped dogs, and the proving of it would be hell.

IDEAS ON



LIBERTY

Hal Watkins

# The Road to Jericho



ONE of the most famous stories Jesus told is the parable of the Good Samaritan as recorded in Luke 10:25-37. It concerns a tragic incident on the road from Jericho to Jerusalem, a distance of about 20 miles. Part of the road was very steep and rugged; some of it was quite smooth. It illustrates the common road over which all of us must travel; sometimes it is steep and rugged, and other times it is quite smooth. It's every man's road.

A number of characters appear on the Jericho road, just as they do on the road of life. By examining them we will be able to identify with some of them and perhaps learn some lessons.

The first to demand our attention is the lone man. By common consent the road was open to the public, so this lone man had every right to be on it without fear or hindrance. Each of us has a God-given right to travel the road of life without being hindered or molested. Even though we enjoy various types of companionship along the way, in a sense we are traveling the road of life alone. We will be influenced more or less by family, church, school, co-workers, business, government and some predators, but the final decisions, for the most part, devolve on each of us individually.

As a lone man I have a right to expect non-threatening treatment from all my fellowmen. If any other man finds himself in a circumstance where he feels he must act toward

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me, he should do only that which helps rather than hinders. This, of course, is also my obligation toward him. A lone man (woman or child) is vulnerable to harm of various kinds, and also to help.

The next characters to appear in this drama of life are the cruel men, the robbers who recognized no God but their animalistic desires. They took advantage of the lone man, stealing his goods, his time and his well-being. The motivation in the hearts of these men was the Satanic principle that "might makes right," or "what's yours is mine—if I can get it." Such evil men add nothing of value to the lives of the people they contact along the way, but they will take everything they can get by fair means or foul. Their own advantage is their only consideration. They wound, bruise and rob. It may be money, reputation or even characters—they don't care.

The thieves in the parable probably ambushed the lone man as he came around a blind corner, but some of their counterparts are more sophisticated or subtle in our day. They might feign distress along the freeway, beg a ride to the next town and rob the benefactor en route. Or, they might put out a plea in favor of the "disadvantaged" and ask the government for help, but since the government has nothing to give, it must first steal the funds from its

taxpayers. This might even involve a conspiracy between those desiring the aid, the group pleading their cause and the government agents (legislators, etc.). The whole problem may become difficult to sort out, trying to determine just who are the sincere agents and who are the thieves. But the apparent difficulty should not be allowed to obscure the problem: the lone man *has* been robbed; his freedom and his very life have been threatened. In what we like to call a "free society," can we shrug it off by saying that each man will have to hire his own army or police force? Perhaps we would do better to examine a system that threatens and crushes the individual and rewards thieves and their accomplices.

On the road of life, within the framework of a "Christian" society, there surely must be some protection for the lone man from the depredations of thieves, the "minus" men who would live solely at the expense of others.


On the road to Jericho there were also other men, selfish men who saw the plight of the abused traveler but had no concern for him or the problem. They were religious men too, but their religion—at least as they practiced it—did not consider the misfortunes or even the rights of their fellow human being. They, of course, would never steal from a

lone traveler in the manner practiced by the bandits, but they didn't want to get involved. "Tough experience for the poor devil. Should have known better than to be traveling alone. Hope someone moves him off the road."

True Christianity is in the world today, but there are many counterfeits. Many of the alleged followers of Christ occasionally express concern for the plunder taking place along the road of life, but they don't lift a finger to expose or solve the problem. The New Testament writer, James, is quite blunt in his description of them: "To him therefore that knoweth to do good, and doeth it not, to him it is sin" (4:17). The attitude of these "zero" men is: "We were not robbed, so it's no concern of ours. What we have we will keep."

Fortunately, on the road to Jericho, there came another man who was not a disappointment but rather a delightful surprise. He had a pure Christian philosophy: "What is mine is yours, and in your misfortune I will share it." He gave of himself and his means. He was the compassionate, unselfish man. This type is also on the road of life today. Not only would he steal nothing from his fellows, but he adds much to their general welfare.

The Good Samaritan did not wait beside the stricken traveler until another victim came along, beat and plunder him, then give the proceeds to the first victim. He was not a first-century Robin Hood who robbed others to help the poor, but he gave of his own means. He didn't run for political office as a cover to conduct his robbery "legally," then give to the poor. Jesus certainly pictured him as a *concerned* man, one who was not content to pass by on the other side as though nothing had happened. He saw a fellow human being in distress, and he visualized himself as part of the solution to the problem. This was a mandate from his conscience to DO SOMETHING. He was not a "minus" man, or even a "zero" man. He was a "plus" man. And Jesus forced his hearer to admit that the Samaritan was motivated by love.

Within the Christian context we are not here to wound, crush, rob or even to ignore. We are here to heal, lift, encourage and contribute of our talent and energy to the end that others too may, if they so desire, enjoy the same blessings we have. This truth has been around long enough to be axiomatic, and Jesus said, "Ye shall know the truth, and the truth shall make you free" (John 8:32). 



# World in the Grip of an Idea.

Clarence B. Carson

## 18. The United States: A Republic and Gradualism

If saying so made it so the United States would today be the stronghold of capitalism and the citadel of free enterprise. Many intellectuals who deplore this state of affairs nonetheless proclaim it to be so. The notion crops up frequently in writings about America by Europeans. There are even Americans who say they favor free enterprise and who declare that the United States is the prime example of it in the world. They may be right in their judg-

ment, but if they are it should give more than a little pause as to the state of freedom of enterprise in the world.

There should be no doubt that the United States was long considered as and was in fact a land of opportunity. Immigrants poured into America from other lands in increasing numbers after the first third of the nineteenth century. They came, in part at least, because they hoped for and often found greater opportunity than in the lands from which they came. There are still opportunities in the United States today. Many of the oppressed peoples from around the world still

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

try to gain entry to this country. They are oppressed as a result of the idea that has the world in its grip. But they must surely discover when they arrive here that the idea has its grip on the vaunted land of opportunity as well as on other lands.

How free is enterprise in the United States? No one has, to my knowledge, devised a means for making the kind of measurements which would give a precise answer to the question. Computers have now been made that can provide swift, almost instantaneous, answers to all sorts of questions, but the most sophisticated computer would be unable to tell us how free enterprise is. This is the case mainly because there is no way to quantify the obstacles that government puts in the way of enterprise, but there is also no way to take into account the ways human ingenuity will discover for overcoming or getting around these obstacles. Even so, the question can be answered with sufficient exactitude to show that enterprise is being stifled, choked, throttled, limited, and restrained in America, and that there is a well established trend in this direction. And government restriction is in some way a limitation on enterprise, and restrictions abound today.

Perhaps the best way to test how free enterprise is in America would be to survey the obstacles that stand in the way of someone contemplat-

ing going into business today. No brief survey can hope to cover all the obstacles; indeed, they may now be so numerous that a lifetime would be too short to learn them. Some of the obstacles are of such complexity that anyone contemplating going into business in a particular locale would need expert legal advice from those familiar with the local situation. But a survey of the obstacles can show the character of many of the limitations and the trend toward increasing them.

### **The Need for Capital**

The first need of anyone going into business will almost certainly be some capital reserves, since virtually all undertakings require capital of greater or lesser amount. To get capital it is usually necessary either to save it oneself, borrow it from others, or get them to invest in the enterprise. The greatest obstacle to individual saving today is inflation, and inflation is a direct consequence of government monopoly of the money supply and continual increase of it. Inflation discourages saving: it even introduces doubt as to the merits of it. Inflation reduces the value of money saved because as the money supply is increased prices rise. This means that the saver could have bought more with the money at the time that he first received it than he could at a later date, if the inflation continues over

a long period of time. Inflation has been almost continual in the United States since the early 1930's and shows no signs of abatement.

The graduated income tax is another deterrent to capital accumulation. Not only does the United States government have such a tax but so also do most states. The more one makes the larger proportion of it is taken by governments. Proponents of the graduated income tax often talk about it as if it were a means of taking from the "haves." It is better understood in its most devastating effects as taking from those who are "getting," for the "haves" can sometimes avoid it entirely. At any rate, progressive taxation limits and obstructs enterprise by making it difficult to accumulate investment capital.

Social Security payments are another inhibiting tax on those who would save to start an enterprise, and this tax has mounted precipitously in recent years. Social Security payments might be conceived as a system of forced saving, but they hardly qualify as savings at all. All that is paid into it is forfeited by the individual, forfeited as far as any control over it is concerned. He cannot draw the money out in order to make investments. He cannot use it to take advantage of greater opportunities as they come along. In short, so far as saving for starting an enterprise is concerned, Social Secu-

rity payments are just so much money lost to taxation.

Borrowing offers hardly more freedom from obstruction by government than does saving for the would-be enterpriser. Banks are the most readily available sources of loans, but they are also probably the most severely regulated undertakings in America today. National banks are chartered by the United States government, and state banks by the states, thus limiting the number and variety of such institutions.

### **Bank Regulation**

The federal government regulates the activities of all national banks and all those which are members of the Federal Deposit Insurance Corporation, which is to say virtually all of them. State laws regulate all banks within their bounds as to such matters as branch banking and interest rates. Most states have usury laws which place limits on the percentage of interest to be charged. This latter restriction is particularly obstructive to new enterprisers, for all enterprises are risky and new ones especially so. Banks are loath to take such risks when they can charge maximum interest on insured and government guaranteed loans. Moreover, state and federal regulations discourage or prohibit certain types of long term loans, and government comp-

trollers look carefully at the type of collateral pledged to secure loans.

Then, too, federal, state, and local governments are competitors with private individuals for the money that is available for lending, and they enjoy some decided advantages in this competition. The federal government requires and/or encourages the banks to have some proportion of their investments in government securities. Municipal bond proceeds are exempt from federal taxes. Banks are much more likely to be able to help a new enterpriser by discounting any paper he holds from his customers than they are to put money directly into the enterprise.

The frustrated enterpriser may look hopefully toward incorporation and the selling of shares in his projected business. But he will discover quickly enough that if he decides to go "public" with his offering governments have erected obstacles here as well. The Securities and Exchange Commission keeps a wary eye on stock offerings, and the more recently set up consumer protection agencies may be no less alert to what he is doing. The SEC is more than a little dubious as to the validity of any claims that might be made about the future prospects of the business. Should the shareholders lose for one reason or another, the new enterpriser may find himself the object of civil, or criminal, suits by various government agencies.

### **An Array of Obstacles**

People somehow manage sometimes to overcome the great variety of obstacles in the way of it and get together sufficient capital to go into business. But in trying to decide what business to go into they encounter another impressive array of obstacles. In contemplating the possibilities, anyone will discover, if he did not know already, that many sorts of enterprise are very nearly or entirely closed to him. The coining or issuing of money has been a monopoly of the United States government for so long that hardly anyone would conceive of it as a potential field for enterprise.

The other most general monopoly of the United States government of a possible business undertaking is that over the carrying of mail, especially first class mail. In earlier times, even with the government occupying the dominant position, there were many opportunities for entrepreneurs to engage in mail transport and even, sometimes, delivery. Star routes, as they were called, were serviced by individuals and private companies; trains, boats, and busses transported mail. Now, most of those opportunities have been foreclosed. The United States Postal Service maintains its own fleet of trucks; and privately owned airlines are the only remaining private domestic transporters of mail of any consequence.



There are other monopolies by the federal government, but they are not so extensive in scope. There is the monopoly of merchandising on military posts by the Post Exchanges. There is the monopoly of the generating and sale of electricity in some regions such as the Tennessee Valley.

The Panama Canal Zone has long been the most thoroughgoing monopoly of the United States government. "Private parties are not allowed to own any land in the Zone and private businesses do not operate there. Therefore, the many other businesses in the Zone other than the Panama Canal are maintained and operated by the Panama Canal Company. These businesses include a steamship line between New York and the Isthmus of Panama; a railroad across the Isthmus, the cargo docks and piers and harbor terminal facilities on the Isthmus; a coaling plant for ships; an oil-handling plant; commissary stores . . . ; a printing plant; restaurants, theaters, bowling alleys," and so forth.<sup>1</sup> If Communists do take over the Canal Zone they will find their basic work has already been done.

The federal government now virtually monopolizes intercity rail passenger transport by way of AMTRAK and is extending its sway into freight hauling by way of CONRAIL.

State governments have also es-

tablished various monopolies. The most dramatic of these may well be that over the sale of liquor and certain other alcoholic beverages. About one-third of the states have a monopoly of the sale of at least some of the alcoholic beverages. Where there are state liquor stores, those who are considering going into some legal business must put this area of potential opportunity out of mind. But even where states do not own and operate the stores, there are usually strenuous restrictions upon entry into such undertakings.

Although neither the federal nor state governments monopolize the manufacture of spiritous liquors, their laws and prohibitions are such that in effect they secure a monopoly to a select few domestic and foreign manufacturers. During much of American history no single undertaking, besides farming, had so many entrepreneurs as distilling, and many farmers supplemented their income with the product from their "still." These distillers have now become an endangered species as a result of decades of relentless search for and pursuit of them by "Revenuers."

States generally have a variety of monopolies. For example:

The state of New York has long maintained a system of barge canals 525 miles in length, which it operates at public expense, charging no tolls. The Commonwealth of Massachusetts, since

1918, has operated the transit system of Boston and neighboring cities and towns. Harbor facilities at ocean ports—wharves, docks, warehouses and the like—are usually owned by state governments. At New Orleans a State Board of Port Commissioners, formed in 1896, operates grain elevators, coffee terminals, banana conveyors, cranes, derricks, a belt line railway, a canal, and a free trade zone. . . .<sup>2</sup>

Local governments generally have several monopolies which exclude private enterprise. Municipalities frequently monopolize trash and garbage collection, water distribution, sale of electricity, distribution of natural gas, and bus or other street and subway systems. At one time, virtually all local transportation systems were privately owned and operated, but price and service restrictions became such a handicap that cities took them over.

Indeed, the whole field of transportation is now very nearly closed to enterprisers. Railroading was so regulated by the Interstate Commerce Commission that it ceased to be a growth business. Nowadays, a would-be enterpriser would be as likely to think of building a railroad as he would to go into manufacturing buggies. City transport is not a viable opportunity, and it is being made less so by massive government grants for the building of rail systems. It is possible to go into truck-

ing, but the obstacles to doing so are such that only the most intrepid enterpriser would venture into the field. Taxis are so regulated in most cities, and the privilege of operating one so restricted that opportunity in this field is limited. Entry into the air transport business is hampered by the Civil Aeronautics Board, and it sometimes takes years for established carriers to get authorization to provide new service to some city or locale.

### **Government Schools**

The field of education has never been a particularly good arena for private enterprisers, and it is generally becoming less so today. Laws requiring school attendance for young people have taken that facet of education out of the realm of economic goods, that plus the fact that "free" public schools are provided. Such private schools and colleges as exist are usually subsidized by gifts and tax-free contributions, hence making it difficult for anyone to enter the field in the hope of profit. On the fringes of education, e.g., teaching various skills such as auto repairing or barbering, there used to be considerable opportunity for enterprisers to found and operate schools. These are being hard pressed today, however, by vocational courses in the public high schools and by the vocational emphasis in many government funded trade

schools and community colleges. Governments are well on their way to monopolizing education by using their taxing powers to exclude competitors.

Many hospitals were once privately owned and operated, but such hospitals are rare today. The Hill-Burton Act brought large doses of federal money to hospital building and gave encouragement to government owned and operated hospitals. It would be exceedingly difficult today to raise the capital necessary to provide the expensive equipment necessary to compete with government owned hospitals.

Governments at all levels are vigorous competitors in providing recreation facilities. This is particularly true for parks, zoos, golf courses, swimming pools, lakes, and waterways. Many buildings in which recreation activities take place—e.g., auditoriums, ball parks, civic centers—are now being built with tax funds. Not only does the prospective enterpriser find his potential savings taken away in taxes to support such undertakings but also his entry into such enterprises made difficult by government competition.

### **Research and Information**

The federal government is in the research and information business in a big way. The Government Printing Office is enormous, and

keeps busy printing numerous pamphlets, making available research reports, publishing agricultural treatises, and providing information for businessmen. A United States Senator pointed out a while back that the Commerce Department gathers around 100,000 research and development reports each year, and that the government spends approximately \$10 billion each year on research.<sup>3</sup> Although governments have not pre-empted the information field, they have made great inroads into it.

There are, of course, enterprises that can be started in which there is little direct competition from government, but there are obstacles to be overcome in going into any of these. A minimum requirement in almost any locale is to get a license. Beyond that, many undertakings require a charter or franchise from some one or more governments. Many kinds of undertaking have special training or knowledge or moral requirements. For example, barbers may have had to have spent a specified length of time in training in a state recognized school, nurses to have undergone a particular regimen, teachers to have taken certain education courses in order to be certified, real estate salesmen to have passed a written examination, plumbers to have served an apprenticeship, saloon-keepers to have conformed to certain moral standards,

and so on. Lawyers usually have to pass the bar examination in the states in which they wish to practice.

It may be instructive in getting some idea of how far this goes to look at this partial list, in one state, of those agencies charged with overseeing certain undertakings: State Board of Accountancy, State Board for Examination, Qualification and Registration of Architects, Commission for Auctioneers, State Board of Examiners for Speech Pathology and Audiology, State Board of Barbers, Board of Chiropractic Examiners, State Board of Cosmetology, State Board of Dentistry, State Board of Electrical Contractors, State Board of Engineers and Land Surveyors, State Board of Registration for Foresters, State Board of Funeral Service, State Board of Registration for Professional Geologists, State Board of Hearing Aid Dealers and Dispensers, Board of Landscape Architects, Board of Physical Therapy, State Board of Private Detective and Private Security Agencies, State Board of Examiners for Sanitarians, Commission of Structural Pest Control, Board for Registration of Used Car Dealers, State Board of Registration for Used Motor Vehicle Parts Dealers, Motor Vehicle Dismantlers, and Motor Vehicle Rebuilders. The list is not complete by any means, but the point perhaps emerges.

Anyone going into business has to have some place from which to operate, i.e., land, buildings, or offices. If he needs land, he will find himself in competition—though that hardly seems to be the right word—with federal, state, and local governments for the dwindling supply of land. Governments were once the great sellers of land in America, but they have now reversed the field and become major buyers—perhaps “condemners” would be more descriptive—: for military installations, for parks and forests, for highways, for urban renewal projects, for hospitals, for lakes and dams, for schools, and so forth. As one writer puts it, the federal government “is the biggest landlord on earth, aside from the communist countries.”<sup>4</sup>

### **Restrictions on Land Use and Building**

Of course, the land and building will have to be selected with care if one is going into business. There are increasing restrictions on land use in the United States. Zoning laws have been around since the 1920's, though they get ever stricter, and they are now being supplemented with land use laws in many states for rural areas. But lately the United States government has gone into comprehensive land use control, or very nearly that, under the auspices of the Environmental Protec-

tion Agency. The government has asserted its sovereignty over land use to protect water, air, endangered species, and what have you. Anyone thinking in terms of operating a factory or manufacturing establishment must undertake the difficult task of assuring state and federal agencies, by way of surveys and tests, that he will not significantly harm the environment within which he locates.

Although the above are only a partial listing of the obstacles which a would-be enterpriser must overcome, let us suppose now that our enterpriser has managed to set himself up in business. However improbable it may seem, however much of at least a minor miracle it surely is, some men are actually able to begin new enterprises in the United States. They manage to accumulate the savings necessary despite the inflationary thrust, the progressive income taxes and the burden of Social Security or manage to borrow the money despite restrictions that make this difficult, or even succeed in selling stock in a corporation so as not to arouse the ire of the SEC. They select an undertaking that is not monopolized by government or that government competition has not effectively foreclosed. They get franchised, certified, licensed, authorized, permitted, qualified or whatever, find some land on which to locate in which their kind of un-

dertaking is allowed, and satisfy the authorities that they will live in harmony with the environment.

### **A Senior Partner**

Such an enterpriser is by no means out of the woods, however, simply because he has managed to open his doors for business. Indeed, it would be more correct to say that many of his troubles have just begun. The man who enters business discovers rather soon, if he did not know it already, that he has a Senior Partner—government. More precisely, he has a committee of Senior Partners, composed of federal, state, county, and, depending upon the locale, township and municipal authorities. These Partners may have thrown any number of obstacles in the way of his going into business in the first place; they may be in competition with him; they may have made low interest loans to his competitors or even granted them special privileges which he does not enjoy. They will rarely have invested anything in the business themselves. Yet once he opens his doors these Partners join the firm, so to speak.

In the first place, the Senior Partners require the businessman to be a tax collector. If he sells to consumers, he will generally be expected to collect federal excise taxes and state and local sales taxes. If he employs other people he will be ex-

pected to withhold federal and probably state and local income taxes from their wages. Under most conditions, he must collect the workers' Social Security taxes by way of payroll deductions. Some cities have employment taxes which he may have to collect.

No matter how small his business may be, the Senior Partners will require that the businessman keep extensive and precise records of his various transactions. He will need records, of course, of the taxes he has collected from others, and records for his own income and Social Security taxes.

The Senior Partners are not particularly mollified by getting the first fruits from any income and having the businessman collect taxes for them. They take an active role in determining how the business should be run. If he sells to consumers, various federal and state consumer agencies may take the side of his customers against him and haul him into court on their behalf or because he has not complied with one or more of the multitude of laws governing these relationships. In like manner, the Senior Partners stand ready to intrude in a great variety of ways on behalf of his employees against the businessman employer. They have, of course, generally specified that he cannot employ those who have not attained a certain age. They pre-

scribe minimum wages, maximum hours, time and a half for overtime, and have long been solicitous of female employees.

Of late, federal and state governments have exerted themselves to see that employers do not discriminate in hiring because of race, sex, age, color, religion, or country of national origin, among other things. In order to prove that he does not do so, an employer is often bidden to take Affirmative Action to assure that he has the proper "mix" of minorities amongst his workers and be diligent in promoting such of these as he has assembled to the better positions he has available.

If his employees should decide to organize themselves into a labor union, the National Labor Relations Board has laid down all sorts of rules to which the businessman employer must comply. Should he be judged to have failed to comply he may well find himself saddled with back wages to pay and employees on his payroll whom he would prefer to do without.

### **Safety and Health**

The Senior Partners concern themselves, too, with the safety and health of the businessman's employees. To that end, OSHA, a federal agency, promulgates all sorts of rules and standards for safeguarding the health of employees. Should an employer fail to comply with

these standards he is subject to potentially heavy penalties.

Particular industries are subject to their own kinds of regulation. For example, the powers of the Federal Power Commission over producers and sellers of electric power show the extent to which the interference of a Senior Partner may go. It exercises the following powers:

Prescribes and enforces a uniform system of accounts for privately owned public utilities engaged in the transmission, or sale or wholesale of electric power in interstate commerce; determines the original cost and accrued depreciation of facilities for the generation and transmission of such energy; investigates and regulates the rates, charges and services for such energy; passes upon application of such utilities for authority to issue securities, to dispose of, merge or consolidate facilities, to interconnect facilities, or to acquire securities of other public utilities; passes upon applications of persons seeking authority to hold interlocking positions; evaluates applications for and, when in the public interest, issues permits for the construction, operation, maintenance or connection of facilities at the borders of the United States for the exportation or importation of electric energy; passes upon applications for authority to export electric energy for the United States.<sup>5</sup>

The Senior Partners are also potential customers of the businessman. The federal government is today the largest purchaser of goods and services in the country. When it

is joined by states and local governments, the role of government as purchaser is an immense one indeed. Needless to say, these governments extend additional authority over anyone from whom they buy goods or services. A seller does not just offer his custom in the market to government; government uses the leverage of a buyer to further control the businessman's business.

The above only scratches the surface of government intervention in the economy today, but perhaps enough has been told to warrant a conclusion. Enterprise is not free in the United States today. It is hampered, obstructed, restrained, constrained, restricted, limited, compelled, and otherwise confined by a multitude of regulations, requirements, and government competition. And there is a well established tendency to increase the intervention more and more over the years. Occasional "deregulation" is overmatched by restrictions introduced from other directions. For example, farm crops are not controlled as much now as they were twenty years ago, but land use restrictions are being introduced into rural areas.

### **Gradual Intrusions**

Thirty or forty years ago there was considerable debate over whether the United States should have a planned economy or not. The

issue was not resolved by the debate, but it has been largely resolved in practice by step by step intrusions into the economy. By government's regulatory powers, control over the money supply and hence over credit and banking, over education, over the communications industries, over transportation, over labor, over the environment, and so forth, planning is widely established today. In most of the United States today, no structure can be erected without permits, inspections, compliance with setback ordinances, zoning laws, and other such restrictions. Government subsidies to cities and regions determine the character and direction of developments in those areas.

A broader conclusion is warranted, too. The United States is under the sway of the idea that has the world in its grip. Whatever the merits or demerits of any or all of the government interventions discussed, one assumption underlies and powers them all: namely, individuals and voluntary associations of men cannot be trusted to provide for themselves and others by pursuing their own self-interest. They must be directed and controlled in their activities by an interest that is outside of and above them as individuals. Self-interest of individuals must be contained, restrained, and redirected—ultimately rooted out—and for it must be substituted what is supposedly in the common inter-

est. The instrument for imposing this common interest is government. That is the idea.

Under the sway of the idea, government has asserted its power into virtually every area of American life. Government has grown mighty and the individual weak and limited. How did this state of affairs come about? It is certainly a reversal of the idea on which these United States were founded. The United States was founded as a republic. Both the United States and the state governments operate under the auspices of written constitutions. The idea that informed these constitutions was that governments should be limited in order that individuals might be freed—freed to pursue their own interests in order to fulfill themselves as best they could and according to their own lights.

### **Keeping the Peace**

It is, of course, the end of government that those within its jurisdiction shall be protected in their life, liberty, and property from harmful intrusions by others. To that end, governments were empowered to legislate, to use force, and to resolve disputes which threatened the peace in order that men might go about their affairs undisturbed by malefactors.

But beyond the granting of powers believed necessary to maintain governments which could keep the



peace, put down domestic insurrection, and repel foreign invaders, the main efforts of the constitutions were to limit the governments they authorized. It was for this purpose that bills of rights were incorporated in them. It was to this end that the powers of government were separated into three branches. The listing of powers granted was supposed to constitute an inherent limit upon government. Even the dispersion of power into federal and state jurisdictions was thought to act to limit the exercise of power. If this was not the aim and purpose of the United States Constitution then those who successfully argued for its adoption were themselves either deceived or engaged in deceiving others.

Among the opponents of ratification of the Constitution of 1787 (the United States Constitution), not one could be found who did so because the government lacked power. On the contrary, it was the fear that it would become powerful and oppressive that animated them. A goodly number of men in that day took the time and made the effort to study the history of governments. One conclusion stood out among all the others that they drew: All governments tend to become oppressive. Few would have dared to rise in the conventions in those days, amidst the displays of historical erudition, to proclaim that men vested with the power of government have been

so transformed that they could be trusted with determining what is for the well-being of those in their jurisdiction. On the contrary, it was settled opinion that those who govern will pursue power to the detriment of the well-being of their fellows if they are not deflected from the course. Limited constitutional government offered the best means they could conceive for delaying, if not ultimately preventing, the appearance of the oppressive tendency of government.

### **How It Happened**

How, then, did this reversal take place? How were many of the confines on government removed and did government begin to confine the individual more and more? A portion of the answer is not difficult to find. It came about gradually, and step by step. Probably, none envisioned that when national banks were given a monopoly of the issue of bank notes in the 1860's by placing a prohibitive tax on state bank notes that in the 1960's virtually all concrete limitations on the money supply would be removed and that such powers as remained over the money supply would be under the control of the federal government. Yet the stage was being set for this course of events, not with malice aforethought but by a process of accretion of power.

Another point can be asserted

here; it has been written about and documented elsewhere, and the present theme precludes discussion of it in detail. The point is this, Americans, or a significant portion of them, came under the sway of the idea that has the world in its grip.<sup>6</sup> That is, they came to believe that when individuals pursue their self-interest it is detrimental to the general welfare, that the supports to the individual should be removed and the individual confined, and that government was the proper instrument to perform these undertakings. Although the idea generally goes by the name of socialism, most Americans never consciously became socialists and, of those who did, few avowed it. The attack upon the American system and the intrusion of government was done piecemeal. Yet when the development is viewed whole, it makes sense only in terms of the prevalence of the socialist idea.

It is important, however, to delve somewhat into the methods by

which government power has been concentrated and unloosed. The dispersion of power by which these United States began had to be overcome and evaded. How this was accomplished needs now to be told. ☉

Next: 19. *The United States: The Concentration of Power.*

### —FOOTNOTES—

<sup>1</sup>Harold Koontz and Richard W. Gable, *Public Control of Economic Enterprise* (New York: McGraw Hill, 1956), pp. 684-85.

<sup>2</sup>Clair Wilcox, *Public Policies Toward Business* (Homewood, Illinois: Richard D. Irwin, 1960), pp. 805-06.

<sup>3</sup>William Proxmire, *Can Small Business Survive?* (Chicago: Henry Regnery, 1964), pp. 99-101.

<sup>4</sup>Koontz and Gable, *op. cit.*, p. 695.

<sup>5</sup>Cornelius P. Cotter, *Government and Private Enterprise* (New York: Holt, Rinehart and Winston, 1960), pp. 227-28.

<sup>6</sup>The present writer has discussed this in detail in *The Fateful Turn* (Irvington, New York: Foundation for Economic Education, 1963) and *The Flight from Reality* (Irvington, New York: Foundation for Economic Education, 1969).

### Moral Sickness

IDEAS ON



LIBERTY

A SWELLING is one of the infallible signs of a sickness underneath, and the swelling of government in America today merely evidences the moral sickness of the people under it. Big government is for little people. The better the people, the less necessity there is for government. This simple, vicarious relationship between the citizen and his government is obscured today in the fog of our confused political councils.

# WHO KILLED COCK ROBIN?



THE community was in shock. Its largest employer, a steel company, had announced the closing of a plant and a permanent reduction of five thousand jobs. This would also mean cutbacks at numerous supporting businesses in the community.

Steel company officials tried to explain that obsolete equipment, costly wage rates and fringe benefits, and prohibitive ecological requirements of government agencies had forced their unhappy decision. But many people were angry. Their villain was a large corporation, and the victims were thousands of hourly workers and their families—a “cause” made to order for politicians, union leaders,

and even clergymen, with their various schemes to save jobs but with little appreciation for the process of job-creation and, thus, little understanding of events that had led to the demise of job opportunities at this closed plant.

A job, in the economic or market sense of the term, is an opportunity to serve customers who are willing to buy products or services at a satisfactory price level. There are many factors involved in creating a job. A steel mill job, for instance, requires a vast accumulation of capital—savings in the form of plant and equipment—as well as the managerial initiative and ingenuity to combine scarce and valuable resources in a way that customers will approve. The price customers are willing to pay for steel determines whether the

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company shows a profit or a loss after paying market rates of interest on invested capital, market wage rates to employees, and market prices for raw materials consumed in the production process. Unless management can efficiently and successfully compete in the market place, it cannot long provide jobs.

### **Other than Market Costs**

There are further costs of production operative outside, or above and beyond, the market place. Two come to mind, and both relate to government. One is the cost of being governed—taxation. Those who wish to freely enter the market for peaceful purposes of production and trade may reasonably expect to share the costs of maintaining the peace and policing the market to keep it open—lawful defense of the property and the lives of peaceful traders. This is part of the cost of producing steel, or whatever, a cost that must be recovered in prices paid by customers if the business is to successfully meet competition.

Governors, however, are seldom self-inclined to limit their activities to the basics of preserving the peace. Nor is it unusual for citizens to pledge their votes in return for various "protections"—a process of trading political powers for special privileges, not in open market competition, but all at the expense of taxpayers. Thus has the U.S. wel-

fare state grown and fed upon itself—and taxpayers—until a fourth to a third of the productivity of the nation is being shunted into these extra-market redistributionist programs.

Businesses in general, and large corporations in particular, are sorely taxed until eventually a business fails or a plant is closed—and jobs are lost. If the price of steel, or whatever, is obliged to reflect a portion of the cost of the farm subsidies, or the public school programs, or the domestic transportation and urban renewal and foreign aid bills, or the unemployment and social security and multiple other welfare and relief measures, then eventually even the cost of steel, or whatever, from a given U.S. producer may come to be more than the consumer is willing to bear.

The second major cost, reflecting governmental rather than voluntary market conditions, stems from the inordinate power that special laws allow labor unions over the owners of business. And this union power to claim higher than market wages hits especially hard at the steel industry. Most vulnerable are the older plants, with older workers at highest wages, and with the oldest and least efficient production equipment. The result? Any major weakness in demand for steel forces these older plants to bow out of competition. No matter the argu-

ments used to obtain exorbitant wages. Forcing employers to pay wages higher than can be recovered in prices from customers results in plants closed and jobs lost.

### Berating Business

It may be self-gratifying to berate corporate officials for their failure to feed the world's hungry masses, their failure to meet every union demand for wages and fringes, their failure to purify all the air and water of the nation, their failure to build more safety than serviceability into every company product—yes, these, and more, and above all, their failure to keep open a plant that can no longer be profitably operated. But instead of berating the efforts of businessmen to meet competition, should not each of us be asking himself where he stood when government regulations, controls, privileges and subsidies were being laced into the cost of products of industry? The question is not so much who is to blame as it is a question of what ideas and actions are responsible for the closure of a plant and the loss of jobs.

In a sense, the question is not *who* killed Cock Robin, but *what* killed Cock Robin? The culprit is the failure to understand why it is best to have people freely and peacefully

making their own economic decisions. Such misunderstanding spreads from person to person, accumulates until another previously profitable business is washed down the drain. Then we grieve. So let us now, in our grief and pain, resolve to question our own past actions and attitudes.

Have I been one who seeks special privileges at the cost of other persons? Have I used my power to intimidate others who prefer to make decisions different from mine? Have I sneered at profits? At private ownership? At free enterprise? Have I been willing to vote to tax others for my benefit?

When one can honestly ask and intelligently answer such questions regarding economic and political policy, then he may deserve a new type of leader in government, in business, in his labor union, in the schools, in the churches—a leadership that will not resort to coercion and violence but rather look to open competition in the market as the solution to the problems perennially facing mankind. But while we lack such faith in freedom, while we persist in our demand for political welfare measures and special privileges, we must expect many more plant closings and lost job opportunities. ☉

# THE SILVER PANIC

"History is little more than the register of the crimes, follies, and misfortunes of mankind," in the opinion of historian Edward Gibbon. While it may be argued that there are numerous triumphs in human affairs to write about, Gibbon's observation seems to be true. If the typical history text were to be stripped of any mention of war, depression, famine, coercion, tragedy, genocide, scandal, rivalry, and mayhem, the remains could probably be reprinted in a leaflet.

Strangely, the awesome Panic of 1893 seems to have escaped the careful scrutiny and exhaustive research of historians. Though it occurred only eighty-five years ago, it remains an obscure episode in American history. It signaled the beginning of a deep depression. Businesses collapsed by the thousands. Banks closed their doors in record numbers. Unemployment soared and idle millions roamed the

streets and countryside seeking jobs or alms. And the country witnessed a spectacular display of political fireworks, now all but forgotten.

For the believer in the free economy, the story of the Panic of 1893 offers a treasure chest of empirical support. The lessons of this tragedy add up to a compelling indictment of government's ability to "manage" a nation's money.

Charles Albert Collman observed that "Money trouble was the manifest peculiarity of the long, drawn-out Panic of '93."<sup>1</sup> Indeed, a breakdown of the monetary system and national bankruptcy were narrowly averted in that year. But money is that great invention which permits the development of a modern exchange economy. How could something so vital to commerce become so troublesome?

Everyone knows that fingerprints are a great aid in placing a suspect at the scene of a crime. The distinguishing characteristics of each individual's skin patterns make this

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possible. In the case of the Panic of 1893, the tragedy is smothered with the fingerprints of politicians. "I deem it proper at the outset to state," wrote Charles S. Smith in the October, 1893 *North American Review*, "that the recent panic was not the result of over-trading, undue speculation or the violation of business principles throughout the country. In my judgment it is to be attributed to unwise legislation with respect to the silver question; it will be known in history as 'the Silver Panic,' and will constitute a reproach and an accusation against the common sense, if not the common honesty, of our legislators who are responsible for our present monetary laws."<sup>2</sup>

### Early Interventions

Contrary to popular impression, government in America has never been totally aloof from the monetary scene. Article I, Section 8, of the Constitution grants Congress the power "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." In the century preceding 1893, Congress experimented with two central banks, a national banking system, paper money issues, and fixed ratios of gold and silver.

America's first cyclical depression occurred in 1819, after three wild years of currency inflation caused by the Second Bank of the United

States. When that "money monster" was eliminated by hard money man Andrew Jackson, the economy slumped into depression again and all the maladjustments of the Bank era had to be liquidated. In 1857 the economy had to retrench after a decade of credit expansion on behalf of state governments that had forced their obligations on the state banking systems. In 1873 the post-Civil War readjustment finally corrected the excesses of the government's rampant greenback inflation. The background of the 1893 debacle is equally interventionist and has some uniquely interesting features which give rise to the label, "The Silver Panic."

Gold and silver rose to prominence as the monies of the civilized world through a process of free and natural selection in the marketplace of exchange. Both circulated as money, though gold was far more valuable. The market ratio between the metals had been roughly 15 to 1 (15 ounces of silver trading for 1 ounce of gold) for centuries. Gold was preferred for large transactions and silver for small ones. The free market had established "parallel standards" of gold and silver, each freely fluctuating within a narrow range in relation to market supplies and demands. Before long, though, government decided it would "help out" the market by interfering to "simplify" matters. The result was

another of the many well-intentioned blunders imposed on a populace by force of law: the official "fixing" of the gold/silver ratio. This became the policy of bimetallism.

Under the direction of Alexander Hamilton, the federal government adopted an official ratio of 15 to 1 in 1792. If the market ratio had been the same and had stayed the same for as long as the fixed ratio was in effect, then the fixed ratio would have been superfluous. But the market ratio, like all market prices, changed over time as supply and demand conditions changed. As these changes occurred, the fixed bimetallic ratio became obsolete and "Gresham's Law" came into operation.

### **Gresham's Law**

Gresham's Law holds that bad money drives out good money *when government fixes the ratio between the two circulating monies*. "Bad money" refers to the money which is artificially over-valued by the government's ratio. "Good money" is the one which is artificially under-valued. Gresham's Law began working soon after Hamilton fixed the ratio at 15 to 1, as the market ratio stood at, roughly, 15½ to 1. This meant that if one had an ounce of gold, one could get 15½ ounces of silver on the bullion market, but only 15 ounces for it at the government's mint. Conversely, if one had

15 ounces of silver, one could get an ounce of gold at the mint but less than an ounce on the market. So silver flowed into the mint and was coined while gold disappeared, went into hiding, or was shipped overseas. The country was thus put on a de facto silver standard, even though it was the declared policy of the government to maintain both metals in circulation.

Congress in 1834 changed the ratio to 16 to 1, but the market ratio had not changed much, and this time *gold* was over-valued and silver under-valued. Gold flowed into the mint, silver disappeared, and the country found itself on a de facto gold standard.

With the end of the Civil War inflation, and subsequent readjustment in the depression of 1873, the story of the Panic of 1893 begins to unfold. It opens with the inflationist agitation of the 1870s.

In 1875, the newly-formed National Greenback Party called for currency inflation. The proposal attracted widespread support in the West and South where many farmers joined associations to lobby for inflation. They demanded at first that the government balloon the paper money supply in the belief that such a policy would guarantee prosperity. It was a demand that finds a less shrill but no less potent voice among many economists today. An eloquent refutation of the



idea that the printing press can create economic wealth can be found in the words of Benjamin Bristow, President Grant's Secretary of the Treasury. In his annual message of 1874, Bristow declared:

The history of irredeemable paper currency repeats itself whenever and wherever it is used. It increases present prices, deludes the laborer with the idea that he is getting higher wages, and brings a fictitious prosperity from which follow inflation of business and credit and excess of enterprise in ever-increasing ratio, until it is discovered that trade and commerce have become fatally diseased, when confidence is destroyed, and then comes the shock to credit, followed by disaster and depression, and a demand for relief by further issues. . . . The universal use of, and reliance on, such a currency tends to blunt the moral sense and impair the natural self-dependence of the people, and trains them to the belief that the Government must directly assist their individual fortunes and business, help them in their personal affairs, and enable them to discharge their debts by partial payment. This inconvertible paper currency begets the delusion that the remedy for private pecuniary distress is in legislative measures, and makes the people unmindful of the fact that the true remedy is in greater production and less spending, and that real prosperity comes only from individual effort and thrift.<sup>3</sup>

The greenback inflation of the Civil War era left an indelible impression on many Americans. They

were suspicious of plans to revive a policy of deliberate paper money expansion on behalf of any special interest group. In 1875, Congress passed the Specie Resumption Act, declaring it the policy of the government to redeem the Civil War greenbacks at par in gold on January 1, 1879. It was regarded from this point on that in order to protect the redemption of the greenbacks, the Treasury would be obliged to maintain a minimum of \$100,000,000 in gold on reserve. The most that the inflationists got was a government pledge not to cancel the greenbacks once redeemed, but to reissue them so that the total number outstanding would remain the same.

### Turning to Silver

The attention of the inflationists was then directed at another medium: *silver*. Robert F. Hoxie, in the *Journal of Political Economy* in 1893, wrote that the inflationists focussed their demands on a silver inflation as a matter of expediency. "They had no love for silver as such," revealed Hoxie, "but it was the cheapest and most abundant substance for which they could gain support, its use would result in more legal tender currency, and its metallic character would in a measure shield the advocates from being stigmatized as inflationists."<sup>4</sup>

The inflationists now became "sil-

verites" and their rallying cry became "Free Silver at 16 to 1." Their influence was sufficient to secure passage of the Bland-Allison Act in February, 1878—the first of the acts putting the government in the business of purchasing quantities of silver for coinage. The Act provided for the purchase by the Treasury of not less than two, nor more than four, million dollars' worth of silver bullion per month, to be coined into dollars each containing  $371\frac{1}{4}$  grains of pure silver (which coincided with the lawful ratio of 16 to 1, since the gold dollar still contained 23.22 grains of pure gold). These dollars were to be legal tender at their nominal value for all debts and dues, public and private. Paper silver certificates were to be issued upon deposit of the bulky silver dollars in the Treasury.

The free silver forces were dissatisfied with Bland-Allison because it did not go far enough—it did not provide for the free and unlimited government purchase and coinage of silver at 16 to 1. The only silver to be coined would be the two to four million dollars' worth that the government purchased each month, and the Treasury, while the law was on the books, rarely bought more than the minimum amount.

Silver producers in particular had a vested interest in the state of affairs, for the market price of silver had begun a long-term decline in the

1870s. Securing a government pledge to buy silver at a higher price than could be obtained in the free market was an obviously lucrative arrangement. As the market ratio of silver to gold steadily rose above 16 to 1, the profit potential became enormous.

### **Bland-Allison Passed Over President's Veto**

Bland-Allison was passed over the veto of President Rutherford B. Hayes. The president, in his veto message, noted that minting silver coins at the ratio of sixteen ounces of silver to one ounce of gold would drive gold out of circulation. The decline of the market price of silver had raised the *market* ratio at the time of passage of the act to nearly  $18\frac{1}{4}$  to 1. If the mint offered to pay one ounce of gold for just sixteen ounces of silver, then only silver would be minted and the country would be on the road back to a *de facto* silver standard. In Hayes' belief, "A currency worth less than it purports to be worth will in the end defraud not only creditors, but all who are engaged in legitimate business, and none more surely than those who are dependent on their daily labor for their daily bread."<sup>5</sup>

When money is left to the free market, its supply is restricted by its scarcity and costs of production. Its value is thus preserved. The declining price of silver on the free market

would have erased the profitability of many mines and hence would have prevented a drastic increase in silver currency. But when the government stepped in and bought large quantities of silver bullion for coinage, and paid more for it in gold than was offered in the market, it forced the quantity of the white metal in circulation to exceed its true demand. The government does much the same thing today when it subsidizes peanuts or wheat. The result of this political interference is a chronic surplus of these commodities.

The silverites' drive for favorable legislation culminated in the Sherman Silver Purchase Act of 1890, which replaced the Bland-Allison Act. The Sherman Act stipulated that the Treasury had to purchase 4.5 million ounces of silver per month, or roughly twice the amount the Treasury had been purchasing under Bland-Allison. Payment was to be made in a new legal tender paper currency, the so-called Treasury notes of 1890, redeemable in either gold or silver at the discretion of the Treasury. The 4.5 million ounces of silver mandated by the law represented almost the entire output of American silver mines. This continuing subsidy to silver producers meant that the government was engaged in a full-blown force-feeding of the American economy. It was only a matter of time

before the patient would suffer the pangs of indigestion.

### **U.S. Out of Step**

The action of the United States government in 1878 and 1890 with respect to silver was especially peculiar in light of world monetary events. Germany, immediately after the Franco-Prussian War in the early 1870s, had withdrawn her silver from circulation and adopted a single gold standard. France, Belgium, Switzerland, Italy, and Greece followed by first restricting the coinage of silver and then eliminating it altogether. Denmark, Norway, and Sweden adopted the single gold standard, making silver subsidiary by 1875. In that year, the government of Holland closed its mints to the coinage of silver. A year later, the Russian government suspended the coinage of silver except for use in the Chinese trade. In 1879, Austria-Hungary ceased to coin silver for individuals, except for a special trade coin. This rapid worldwide transition from silver to gold prompted the United States Treasury Department in 1879 to note that "since the monetary disturbance of 1873-78 not a mint of Europe has been open to the coinage of silver for individuals."<sup>6</sup> Yet the United States government, at a time when the value of silver was falling dramatically and when the nation's trading partners were abandoning

the white metal, stepped in to promote silver against gold at the unrealistic ratio of 16 to 1!

One way of looking at silver's depreciation is to consider the annual average market value of the 371¼ grain silver dollar. In 1878, the bullion value of that much silver was about 89¢; by 1890 it dropped to 81¢; by 1893, it was worth 60¢; and by 1895 it plummeted to a mere 50¢. A climate of uncertainty pervaded the world of finance. As Professor J. Laurence Laughlin wrote, "No one could know that contracts entered into when a dollar stood for 100 cents in gold might not be paid off in silver which stood for 50 cents on a dollar. That was the predicament in which every investor found himself who had an obligation payable only in 'coin' and not in gold."<sup>7</sup>

In an article entitled "Thou Shalt Not Steal," Isaac L. Rice penned an eloquent repudiation of the government's silver coinage policy. His argument evoked the moral side of the question and eighty years later is still a forceful indictment of monetary dishonesty:

Of the various classes of crime that come under the category of theft none is more odious and despicable than the use of false weights and measures. Stamping a coin containing 371¼ grains of silver as of the weight of one hundred cents, while in truth it is of the weight of fifty-three cents, is a falsification of weights morally not distinguishable

from stamping any other kind of weight as of two pounds which in truth is only of one pound. Only the methods by which fraud is to be made are different. The thievish individual depends upon secret deceit, the qualities of the sneak thief; the Government on coercion, the qualities of the highwayman.<sup>8</sup>

In accordance with inexorable economic law, the Bland-Allison and Sherman Acts caused a drain of gold from the Treasury and an inflow of silver. This tampering with the fixity of the standard threatened the Treasury's declared policy of redeeming greenbacks and other government obligations in gold. And, the disappearance of gold from circulation and from the reserves of the nation's banks threatened the sanctity of all contracts made in gold. Professor Laughlin observed that no producer "could feel so entirely sure of the standard of payments that he could, without fear or hesitation, make his estimates a few years ahead."<sup>9</sup>

### The Flight of Capital

The silver purchases noticeably affected the confidence of foreigners in the American economy. Many British and French investors expected devaluation of the dollar at the least, with complete financial collapse predicted by some. Capital flowed out of the country as these foreigners sold American securities. Even Americans, in increasing numbers after 1890, began export-

ing funds for investment in Canada, Europe, and some of the Latin American countries, all of which seemed stronger than the United States.

The inflationary impact of the Bland-Allison and Sherman Acts was particularly important in paving the way for panic and depression. A. D. Noyes, writing in *Political Science Quarterly*, stated that "The coinage of over-valued silver dollars since 1878, and the issue of Treasury notes on silver bullion since 1890, have actually increased the country's silver and paper circulation, between 1879 and 1894, by seventy-five per cent."<sup>10</sup>

W. Jett Lauck, in his study entitled *The Causes of the Panic of 1893*, found that the Sherman Act inflation produced an "absence of the usual stringency in the New York money market" in the fall of 1891. Call loans ranged from two to four per cent, a significant decline from earlier levels.<sup>11</sup>

In 1910 the National Monetary Commission requested O. M. W. Sprague to report on the nation's finances since the Civil War. In his authoritative report, *History of Crises Under the National Banking System*, Sprague found that from January, 1891 to June, 1893, "there was an increase of \$68,000,000 in the estimated amount of money in circulation." The effect on bank credit was typical of any "easy money"

policy: "During 1892 the low rates for loans were a clear indication that the banks would have been glad to lend more than the demand of borrowers made possible." The classic symptoms of currency inflation were evident, a situation which Sprague found to be unsustainable. He felt that "a situation which demands increasing credits to prevent collapse is certain to arrive at that state in any case, and delay can hardly be expected to improve matters."<sup>12</sup>

### End of the Boom

The economy, drugged by easy money, was showing outward signs of prosperity. Unemployment, which had been above 5 per cent in 1890 and 1891, fell to 3.7 per cent in 1892. Crop failures in Europe coupled with exceptional harvests here in the United States boosted agriculture. President Harrison told Congress, "There has never been a time in our history when work was so abundant, or when wages were as high."<sup>13</sup> The boom was, however, only temporary. The twin evils of inflation and uncertainty as to the fixity of the standard were eating at the vitals of the nation's commerce.

Late in January, 1893, prices of staples such as wheat and iron, previously on the rise, began to recede. Price declines across the board foreshadowed a general cyclical contraction. "General business activity," according to Charles Hoffman,

"suffered a severe check that was recognized at once in the business journals. The stock market gave ominous signs of falling prices before any sharp drop took place."<sup>14</sup> Banks became apprehensive over the Treasury's loss of gold (as well as their own) and began to contract the pyramid of credit. Loans declined almost 10 per cent from February to the beginning of May. An article in the February, 1893 issue of *Forum* spoke of "a dangerous state of uneasiness in financial circles," and warned that "Fear is an element in monetary conditions which may be as serious in its effects as reason."<sup>15</sup>

A dramatic event took place on February 20. The Philadelphia and Reading Railroad, a chronic invalid which nonetheless had paid its usual bond dividend the month before, collapsed into bankruptcy. "When the end came," writes Rendigs Fels, "it had a floating debt of \$18.5 million compared to cash and bills receivable of little more than \$100,000."<sup>16</sup> The failure of the Philadelphia and Reading, a firm supported by powerful Wall Street financial houses, caused many businessmen to question the conditions of other railroads and the financial institutions behind them.

When President Harrison left office on March 4, 1893, the Treasury's gold reserve stood at the historic low of \$100,982,410—an eyelash above the \$100 million

minimum deemed necessary for protecting the redemption of greenbacks. Merchants increasingly refused to accept silver in violation of the law and ugly threats of strikes echoed in the nation's factories.

On April 22 the Treasury's gold reserve fell below the \$100 million minimum for the first time since the resumption of specie payments in 1879. Bankers and investors realized that the Treasury could not indefinitely continue drawing upon the remaining gold reserve to redeem the Treasury notes of 1890 in the attempt to maintain their value. Banks had to brake their easy money habits and began calling in their loans at a frantic pace. More and more investors began to fear that before securities could be sold and realized upon, depreciated silver would take the place of gold as the standard of payments.

By Wednesday, May 3, tension in the commercial community triggered a massive wave of selling on the stock market. *The New York Times* recorded the events the next day:

Not since 1884 had the stock market had such a break in prices as occurred yesterday, and few days in its history were more exciting. In the industrial shares particularly, there was a smashing of values almost without precedent.

In the last thirty minutes the brokers on the floor of the Exchange found the quotations on the board of little use.

Figures posted at one moment were valueless the next. In the industrials which were receiving the most punishment prices were dropping a point at a time. The crowds trading in them were made up of shouting men, who struggled about the floor like football players in a scrimmage.<sup>17</sup>

The Panic of 1893 had begun! On May 4 a stock market favorite, National Cordage Trust, went into receivership. Shortly before the panic, Cordage common stock had sold for \$70 per share. The plunge was precipitous, as Charles Albert Collman vividly explains:

In the Cordage Trust circle of the New York Stock Exchange, hats were being smashed, coats torn, cravats ruined. Here was an agony that meant financial life or death to many. Cordage common had gone off 18 points. The preferred had lost 22. Suddenly howls went up from the floor. Those who could distinguish the words, heard the ominous cry: "Nineteen for Cordage!"

The shares, a few moments later, went down to \$12.<sup>18</sup>

### The Cordage Crash

The Cordage crash was taken as, in Collman's words, "some occult signal for the halting of enterprise."<sup>19</sup> Plants closed their gates and went quickly into receivership. Unemployment rocketed to 9.6 per cent before year-end, nearly three times the rate for 1892. In 1894, an estimated 16.7 per cent of industrial wage-earners were idle.

From January to July, 1893, mercantile failures totaled a remarkable 3,401, with liabilities totaling \$169,000,000. The bulk of the losses came after the first week of May. O. M. W. Sprague revealed that the "failures exceeded both in number and in amount of liabilities those which had occurred in any other period of equal length in our history."<sup>20</sup>

Bank failures and suspensions were the greatest on record. Most occurred in the South and West, where the evils of a vicious currency expansion had taken root far more extensively than in the rest of the country.

The economy was going through the pains of liquidation. The malinvestments fostered by the Bland-Allison Act and Sherman Act inflation were being sloughed off. The threat to the de facto gold standard was a factor which no doubt complicated things, heightened uncertainty, determined the timing of the panic, and exacerbated the depression, but the chief responsibility for the crisis rested with the attempted force-feeding of the nation's money supply by government policy. *The Commercial and Financial Chronicle* said as much on July 8, 1893:

The country is struggling with disturbed credit and the general derangement of commercial and financial affairs which a forced and over-valued currency has developed. . . . Nothing but corrective

legislation which shall remove the disturbing law, can afford any measure of real relief.<sup>21</sup>

With the economy in depression, the necessity for eliminating the legislation which precipitated the tragedy became increasingly apparent. On June 30, President Grover Cleveland called for a special session of Congress to repeal the Sherman Silver Purchase Act of 1890. "The present perilous condition," he declared, "is largely the result of a financial policy which the Executive branch of the government finds embodied in unwise laws which must be executed until repealed by Congress."<sup>22</sup> The ensuing debate in the Congress was a splendid contest, pitting the forces of sound, honest money against the forces of inflation, in which the sound money men calmly answered the question, "What would you put in place of the silver purchases?" with the single, solitary word, "Nothing!"

### Cockran Favors Repeal

On August 26, Congressman Bourke Cockran of New York rose to deliver a memorable address in favor of repeal. The speech has been called the most eloquent and scholarly of the entire debate. The congressman advised his colleagues:

I think it safe to assert that every commercial crisis can be traced to an unnecessary inflation of the currency, or

to an improvident expansion of credit. The operation of the Sherman Law has been to flood this country with paper money without providing any method whatever for its redemption. The circulating medium has become so redundant that the channels of commerce have overflowed and gold has been expelled.<sup>23</sup>

Cockran proceeded to trace the history of coinage in England and explained how debasing the currency led to recurrent depressions. James McGurkin, Cockran's biographer, believes that the subsequent vote in the House of Representatives in favor of repeal "was due in no small measure to Bourke Cockran's matchless eloquence and sagacious leadership."<sup>24</sup>

The repeal bill passed the House on August 28 by a wide margin. President Cleveland's forceful leadership prompted the Senate to do likewise in October. *The New York Times* heralded the occasion: "The Treasury is released from this day from the necessity of purchasing a commodity it does not require, out of a money chest already depleted, and at the risk of dangerous encroachment upon the gold reserve."<sup>25</sup>

An indispensable pre-condition to recovery was accomplished with the repeal of the Sherman Silver Purchase Act. The derangement of the nation's money was a big step closer to solution, though the road to recovery was long and hard. Not until 1897 did depression give way to re-



vival and prosperity. Repeal of the Sherman Act was, by any measure, an act of congressional repentance. Indeed, it was an open admission that the Silver Panic was the offspring of a profligate, overbearing, and irresponsible government. Historian Ernest Ludlow Bogart summarized the lessons of the Panic of 1893:

It must be said that the net results of this experiment of a "managed currency," that is, one in which the government undertakes to provide the necessary money for the people, were disastrous. For the maintenance of a suitable supply the operation of normal economic forces is more reliable than the judgment of a legislative body.<sup>26</sup> ⊕

### —FOOTNOTES—

<sup>1</sup>Charles Albert Collman, *Our Mysterious Panics, 1830-1930* (New York: Greenwood Press, 1968), p. 88.

<sup>2</sup>Charles S. Smith, "The Business Outlook," *North American Review*, October 1893, p. 386.

<sup>3</sup>James A. Barnes, *John G. Carlisle, Financial Statesman* (New York: Dodd, Mead and Co., 1931; reprint ed., Gloucester, Mass.: Peter Smith, 1967), pp. 32-33.

<sup>4</sup>Robert F. Hoxie, "The Silver Debate of 1890," *Journal of Political Economy* 1 (1892-1893): 561.

<sup>5</sup>Herman E. Krooss, ed., *Documentary History of Banking and Currency in the United States*, vol. 2 (New York: Chelsea House Publishers, 1969), pp. 1921-1922.

<sup>6</sup>*Ibid.*, p. 1934.

<sup>7</sup>J. Laurence Laughlin, *The History of Bimetallism in the United States*, 4th ed. (New York: D. Appleton and Co., 1900), p. 274.

<sup>8</sup>Isaac L. Rice, "Thou Shalt Not Steal," *Forum* 22 (September 1896—February 1897): 1.

<sup>9</sup>Laughlin, p. 269.

<sup>10</sup>A. D. Noyes, "The Banks and the Panic of 1893," *Political Science Quarterly* 9 (No. 1): p. 15.

<sup>11</sup>W. Jett Lauck, *The Causes of the Panic of 1893* (Boston: Houghton, Mifflin and Co., 1907), p. 80.

<sup>12</sup>O. M. W. Sprague, *History of Crises Under the National Banking System* (Washington, D.C.: Government Printing Office, 1910; reprint ed., New York: Augustus M. Kelley, 1968), p. 158.

<sup>13</sup>Robert Sobel, *Panic on Wall Street: A History of America's Financial Disasters* (New York: Macmillan Co., 1968), p. 243.

<sup>14</sup>Charles Hoffman, *The Depression of the Nineties: An Economic History*, Contributions in Economics and Economic History, no. 2 (Westport, Conn.: Greenwood Press, 1970), p. 107.

<sup>15</sup>Geo. Fred Williams, "Imminent Danger From the Silver Purchase Act," *Forum* 14 (September 1892—February 1893): 789.

<sup>16</sup>Rendigs Fels, *American Business Cycles: 1865-1897* (Raleigh: University of North Carolina Press, 1959; reprint ed., Westport, Conn.: Greenwood Press, 1973), p. 185.

<sup>17</sup>"Industrials Were Hit Hard," *New York Times*, 4 May 1893, p. 1.

<sup>18</sup>Collman, p. 164.

<sup>19</sup>*Ibid.*, p. 165.

<sup>20</sup>Sprague, p. 169.

<sup>21</sup>Hoffman, p. 229.

<sup>22</sup>"Congress to Meet August 7," *New York Times*, 1 July 1893, p. 1.

<sup>23</sup>James McGurrin, *Bourke Cockran* (New York: Charles Scribner's Sons, 1948), p. 135.

<sup>24</sup>*Ibid.*, p. 138.

<sup>25</sup>"Need Buy No More Silver," *New York Times*, 2 November 1893, p. 1.

<sup>26</sup>Ernest Ludlow Bogart, *Economic History of the American People* (New York: Longmans, Green and Co., 1937), p. 693.

# VISION

In his twenty-third book, *Vision* (Foundation for Economic Education, \$6.00), Leonard Read speaks deprecatingly of himself. There is nothing in his striving for foresight and insight, he says, that is original "except the phrasing." By the strictest of standards, Mr. Read may be right about himself: morality was pretty well covered in the Ten Commandments, the Sermon on the Mount was preached some 2,000 years ago, and Aristotle, Thomas Aquinas and John Locke, the fathers of political science, have had their thousands of glosses, including those of James Madison and Alexander Hamilton. But there can be an originality in combinations that goes beyond questions of mere phrasing, and Leonard Read need not apologize for his ability to put things in unique perspective.

Surprisingly, in his *Vision*, he comes through as a journalist of great perception. The other day, in the course of tracking down information for a column which I supposed would be original with myself, I interviewed a visitor from Argentina. I had been listening to the complaints of American libertarians who are convinced that there will be no place of refuge if the United States is to go all the way to collectivism. My own hunch is that the southern hemisphere has seen the worst of its misadventures in socialism. Australia, which has had its labor governments, has been moving back from socialist extremes under the enlightened conservatism of Prime Minister Fraser, who believes in linking labor agreements to productivity. In Chile, the Pinochet government listens to

economists who were trained at the University of Chicago. As for Argentina, I had heard rumors that it was staging a comeback from the tyrannies and terrorism associated with Peronism.

My Argentinean informant assured me that the rumors were true. Where the Argentine rate of inflation under the dictatorship of Peron's widow had been 900 per cent, it has now been cut to 120 per cent, and is going lower. The present government has been waiving taxes and is about to transfer control of schools and hospitals to the provinces. And all those enterprises that had been seized or "intervened" by the Peronistas are now being restored to private investors. This is being done by a public tender that, in the words of my informant, will be "totally and irrevocably" under way by the end of 1978.

The trade statistics, as offered by the Argentinean Minister of Economy, Martinez de Hoz, are particularly eloquent. Where there was a deficit balance in 1975, there is now an annual export surplus running close to two billion dollars.

### **Lessons from Afar**

I thought I had something of a scoop in a column that suggested the southern temperate zone might be a haven for libertarian spirits if Washington, D.C., succumbs to "worst-case" socialism. But the sec-

ond essay in Leonard Read's *Vision*, called "Lessons from Afar," shows that Mr. Read was there first. With Dr. Benjamin Rogge of Wabash College, he spent a week in Buenos Aires in June of 1977. What he and Ben Rogge saw "startled" their imaginations. Never had they observed better dressed people. The stores were "aglitteer with splendid merchandise and excellent service." The food was excellent—and when Mr. Read, a cordon bleu chef on his own account, says this, it really means something. Shoes cost less than in the U.S.

Mr. Read and Dr. Rogge had not sought their speaking engagements in Argentina. They found the local hunger for the freedom philosophy to be quite fantastic. The army and navy officers, far from entertaining ideas about military control of the economy, were all for a divestiture that would be satisfactory to even the most exacting Austrian economist. We have heard of tyrannical "colonels" governments in Greece, in Egypt and in Peru. But in Argentina, as in neighboring Chile, the "colonels" want to get out of the business of directing the energies of the citizens as fast as they can.

### **Konosuke Matsushita**

Mr. Read continues his reportorial enterprise in his essay on Konosuke Matsushita, the man who developed the biggest and the most profitable

business in Japan's history. Matsushita explicitly forbade the pursuit of profit as the motive of his enterprise. Instead, he set his goal as the production of better products at lower and lower prices. Profitability came as the by-product of management efficiency. Good tennis players who concentrate on the next stroke without worrying about the outcome of the game will tell you that the Matsushita formula is psychologically sound. Matsushita was, of course, picking up where the original Henry Ford left off. It is ironic that the Argentineans and the Japanese should now be doing things that the U.S., in its passion for the "planned chaos" of socialism, is forgetting.

The "lessons" that Mr. Read is concerned about do not all come from "afar." Many of them come from his own library. A great reader, Mr. Read excels at relating the separate thoughts of a wide variety of sages to a central idea that clamors for illumination coming from all directions. Thus, in asking the question, "Why Not Separate School and State?" Mr. Read begins with Andrew Dickson White's work on Paolo Sarpi, a Venetian priest who was the first to fight Rome on the issue of separating church and state. Venice, the great world trading center of the sixteenth century, was tired of the pretensions of the popes to temporal as well as

spiritual power. There had been popes that were secret murderers and patrons of pornographical plays that would have shocked the most hardened of modern sensibilities. Sarpi's "brilliant reasoning" led eventually to a separation of church and state. This makes Sarpi one of the world's great statesmen.

### **Absolute Power Is Poison**

By relating Sarpi to Lord Acton and Hayek, Mr. Read concludes that there is just as much danger from a government monopoly of education as there ever was from a compulsory state religion. (Absolute power over the mind is poison when, as Hayek has noticed, the "worst get on top.") As a matter of fact, state control of education usually ends by controlling religion by indirection. By absorbing most of the funds available for teaching, the state effectively keeps most parents from sending their children to church-supported schools. The result is a forced secularization of young minds—which leads to a general inculcation that the state itself is God. To be "neutral" on the religious question, then, the state has no more business in running schools than it has in prescribing an official mode of worship.

Mr. Read finds support in the most unlikely places. As a chef and gourmet, he has enjoyed dining in Bresse, where he savored Poularde de Bresse en Creme, one of Brillat-

Savarin's best recipes. He was delighted to discover that Brillat-Savarin, as a supporter of the French Revolutionary orator Mirabeau, called attention to the natural law that subjected the paper assignats to rapid depreciation. It tickles Mr. Read to think that it takes a good cook to know about money.

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### **THE WAR AGAINST THE AUTOMOBILE**

by B. Bruce-Briggs

(E. P. Dutton, 201 Park Ave., S.,

New York, New York 10003)

244 pages ■ \$10.95

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*Reviewed by Allan C. Brownfeld*

SLOWLY, it has become clear that a key element in the fight of the environmentalists, the ecologists, and others against the growth of the American economy is essentially an elitist effort to stop things where they are—with those calling for such a stoppage simply being those already at the top. In a sense, such elitists constitute an American "new class" not radically different from the one in Communist states described so well by Milovan Djilas.

Among the crusades being en-

tered into by this new class is a mounting battle against the American automobile.

It is charged that the auto-highway system discriminates against the poor, minority groups, and the elderly. It is said that highways have destroyed American cities, that cars have created congestion, and that the automobile is unsafe. Beyond this, it has been said that auto exhausts are poisoning us, that Detroit deliberately murdered mass transportation and that the auto is devouring irreplaceable energy resources.

This is, of course, a serious indictment—and it is used by those who urge the federal government to fund mass transit systems and who have sponsored legislation which has altered automobile manufacturing in a number of serious—and expensive—ways. Such critics, if they have their way, would sharply curtail ownership of cars in the United States. Individual freedom, some declare, does not involve the freedom to own and drive such a vehicle.

Against this indictment, B. Bruce-Briggs, an historian, urbanologist and policy analyst who has served with the Hudson Institute, has provided a thoughtful and effective response. Beyond this, he counterattacks, arguing that what is at the root of the hostility to the automobile is an elitism which seeks

to "rationally plan" the entire American transportation system. The individual charges against the automobile, he states, are just rationalizations for the real purposes of the assault.

"The war against the automobile," the author declares, "and the myths of mass transportation are merely one campaign in an upper-class struggle against the standard of living, individual freedom, and pride of the great mass of the American people."

Americans use the automobile rather than some other form of transportation, Mr. Bruce-Briggs writes, because it best fits their needs. He notes that, "The commuter railroad, the elevated railroad, the subway, the trolley, the bicycle, the motorcycle, and the bus all fought in head-to-head competition with the automobile, and all lost. The reason is not at all difficult to understand—the automobile was the superior system. No one planned that the car should dominate. . . . The automobile is, so far, the most perfect method of intraurban personal transportation yet devised . . . by the criteria of economy, speed, comfort, convenience, and always most important of all, point-to-point delivery, the automobile was, is, and will be far superior."

Americans also like the automobile because it permits them to maximize their individual

freedom—complete with all of the eccentricities which such freedom permits, a notion which is always anathema to those who seek rational homogenization of society rather than the "chaos" which results without it. The author writes: "In the automobile, you go where you want when you want, you stop when you want, you eat when you want . . . and select your own route. . . . All costs considered, the car is cheaper than train or bus. . . . It gives personalized flexibility . . . you have control over your own mobility. There are few things in our society, and fewer with each passing year, that offer us so much individual freedom."

To the charge by Ralph Nader and others that auto makers have been indifferent to safety, Mr. Bruce-Briggs responds that, "Detroit has not talked much about safety, to be sure . . . but their engineers and designers have been continuously improving the safety of their products. . . . The windshield improved visibility, as did the windshield wiper and washer. Headlights are an obvious safety device, as are running lights, brake lights, and turn signals. So are effective suspension systems that permit the driver to retain control in emergency conditions, and brakes, which have been steadily improved. The best safety devices are those that *prevent* accidents . . . but most safety 'experts' have con-

centrated on reducing injury after an accident has occurred."

Concerning Mr. Nader's much discussed volume, *Unsafe at Any Speed*, the author states that, "not even its most devoted apologist would describe it as a serious work. It is a polemic against the automobile expressed in demagogic language. . . . The bias of Nader's book is apparent from his omission of obviously important facts—that the fatality rate had been steadily declining and that several auto manufacturers had attempted safety campaigns to sell cars (Kaiser in 1952 and Ford in 1956), and these efforts had flopped. . . . Perhaps the most revealing aspect of Nader's approach to automobile safety was his claim that the Corvair was more dangerous than other cars. Yet he did not present one scrap of comparative data indicating this was so."

Washington, beginning in the early 1960s, began a serious effort to reverse the choice of individual Americans for the auto and to get people out of their private cars and back into collective "public" transportation. This has involved huge outlays for federal aid to mass transportation which, once constructed, as in San Francisco, remains largely unused.

Mr. Bruce-Briggs does not blame the government bureaucracy: "Even had they been the most creative and

competent analysts and managers, their efforts were doomed to failure. By undertaking to get the public out of cars . . . they sought to turn back history. . . . What BART [San Francisco mass transit] has done is to substitute an incredibly expensive and inefficient rail transportation system for a relatively cheap and efficient bus transit system . . . citizens have paid \$2 billion down and \$300 million a year—just to transfer 100,000 prosperous commuters from buses to BART. . . . The alleged benefits of mass transportation are specious. The federal government has spent \$6.5 billion on 'mass transportation' in the last 15 years, an amount more than matched by state and local government. Congestion has not been relieved, pollution has not been alleviated, mobility has not been improved."

It is not the excesses of the automobile which its critics oppose, but the automobile itself. The official who wrote New York City's transportation control plan stated: "My plan was a tool for social change. Very few people grasped that. My crusade is not air pollution: it's the automobile. . . ." And Ralph Nader clearly stated that, "I'm in favor of zero automobile growth." Mr. Bruce-Briggs also charges that "new class" elitists have been joined in their war upon the automobile by "downtown business interests" in some cities. He writes that, "While

their fiscal and economic difficulties are grossly exaggerated . . . the problems are real, and these cities are no longer as healthy as their suburban areas. There are vast vested interests in these cities—in banks, in real estate, and department stores; 'suburban sprawl' threatens these investments. . . . Small wonder that newspapers howl about the evils of suburbanization and its vehicle, the automobile—after all, it is obvious that the move to the suburbs has been made possible by automobiles and highways. . . . Among these decaying northeastern cities are Boston, the academic capital of the country; New York, the media capital; and Washington, the political capital. The problems and interests of these cities are thus imposed upon the nation."

The elite which condemns the automobile charges the car with using

too much energy. Yet, this same group urges a policy in the energy field which would prevent the development of new coal, natural gas, and petroleum resources. They are on top, the author argues, and care little for the fate of the classes below—classes they believe they have been ordained to control through the making of government policy—"for their own good."

Mr. Bruce-Briggs understands the forces at work in the American society all too well. In this book, he has carefully examined the current crusade against the American automobile, and has placed it in its proper perspective. Perhaps if we understand the motivation of the enemies of economic growth and the free market we will be in a position to better counter their political crusades. In this sense, the current volume is invaluable. ®

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|--|------------------------------------|------------|
| <b>We the People</b>   | <b>Ralph Bradford</b>              | <b>387</b> |
| Concerning each person's responsibility if we are to preserve freedom and prosper.                                 |                                    |            |
| <b>A Christian View of Labor Unions</b>  | <b>Gary North</b>                  | <b>394</b> |
| Why a compulsory monopoly has to have victims on the outside.  |                                    |            |
| <b>What Government Officials Cannot Know</b>   | <b>Brian Summers</b>               | <b>399</b> |
| Changing values and expectations of individuals are reflected in market, not governmental, actions.                |                                    |            |
| <b>The Future Is Purchased Today</b>   | <b>Hans F. Sennholz</b>            | <b>406</b> |
| Instant gratification through political means betokens a short and brutal life.                                    |                                    |            |
| <b>Survival of the Species</b>   | <b>Ben Moreell</b>                 | <b>410</b> |
| The key to the survival of civilization is human liberty.  |                                    |            |
| <b>The Mystery of Inflation</b>  | <b>Harry C. Knickerbocker, Jr.</b> | <b>420</b> |
| The distinction between commodity money and paper substitutes.   |                                    |            |
| <b>World in the Grip of an Idea</b>  |                                    |            |
| <b>19. The United States:</b>  |                                    |            |
| <b>The Concentration of Power</b>  | <b>Clarence B. Carson</b>          | <b>425</b> |
| Concerning the centralization of political power and its manipulation at crucial pressure points by intellectuals. |                                    |            |
| <b>Ideas that Serve</b>  | <b>Willie E. Nelms</b>             | <b>437</b> |
| How business is built through serving customers—and lost when they are no longer satisfied.                        |                                    |            |
| <b>The Law Also Is Polluted</b>  | <b>Robert E. Hood</b>              | <b>441</b> |
| Respectable law is upheld largely through moral conviction rather than at the point of a gun.                      |                                    |            |
| <b>Book Reviews:</b>   |                                    | <b>445</b> |
| "The Totalitarian Temptation" by Jean-Francois Revel   |                                    |            |
| "Two Cheers for Capitalism" by Irving Kristol  |                                    |            |
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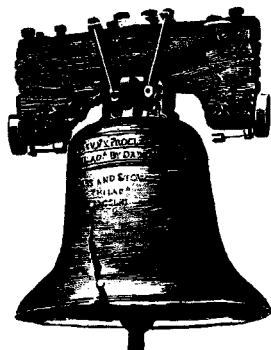
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Ralph Bradford

# WE THE PEOPLE



WHEN our fathers put themselves to the task of devising a fundamental law for the brand new nation they had created, they displayed great unity of purpose and breadth of vision. They did not, in class-conscious fashion, ask, What can we do for the benefit of agriculture? Or, How can we help labor? Or, What will be best for industry? No, their sights were on an altogether different sort of target—and they expressed the essence of it in the first three words of the Constitution they were so carefully and laboriously drafting: "We, the people."

Today, at a time when we are beset on all sides by the demands of this and that special interest, it would be fine if the leaders and exponents of all such groups would take a minute to read the one short paragraph that forms the preamble to that Constitution.

In passing, it is of interest to note that in a period of rather florid

rhetoric the Founders restrained themselves remarkably at the really crucial moments. The Declaration of Independence, to be sure, is not an example of such reticence; but then, it was really a public relations production—a propaganda document, designed to tell the world why a certain action had been taken. It was prepared out of "a decent respect for the opinions of mankind." It had to go into considerable detail.

But the "action paper," the thing that did the trick, was a little 47-word resolution introduced by Richard Henry Lee, which asserted quite simply that the American colonies were, and of right ought to be, free and independent states. And it was so with the Constitution. Of course many words were required to spell out all its articles and sections;

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Mr. Bradford, of Ocala, Florida, is well known as a writer, poet, speaker, and business organization consultant.

but when it came to setting down just what the basic law of the new nation was all about, the Founders laid it out fully in that one short paragraph.

They said it was to form a more perfect union; establish justice; insure domestic tranquility; provide for the common defense; promote the general welfare; and secure the blessings of liberty for themselves and their posterity.

That was it. That's what they said it was all about—and it ought to be required reading to offset somewhat the recurrent proposals for the addition of this or that million-dollar bureau to bring this or that alleged billion-dollar "benefit" to this or that group—or for the creation of this or that agency to regulate and control the minutiae of our lives.

And I now suddenly realize that the paragraph I have just written contains an example of the kind of compulsion I'm given to complaining about! Okay—so I will let it stand for that reason. Look: "*It ought to be required reading.*" I know, I know—that's a common conversational stereotype, but its use illustrates the innate attitude toward compulsion that is at the root of supergovernmentalism. I think, or my particular elite group thinks, that the preamble is important—therefore everybody should be *required* to read it!

But to return to the Founders, in

addition to being sure of their aims, they were very conscious of the source of their authority. When they set down a principle, or even a procedure, they knew who, ultimately, was speaking. It was "we, the people."

Of course the great issues of statism versus freedom were not posed to our colonial forebears in the explicit terms of privilege and preference such as we now hear. But the Founders were not ignorant of either history or human nature. They knew that a time would come when there would be demands for governmental favors, preferences, largesse; and they made no place for them, except inadvertently, perhaps, in the much-tortured general welfare clause; and the anticipated demands for such extensions of government were answered once for all by Jefferson's simple phrase: "The best governed are the least governed."

### **The Growth of Bureaucracy**

History shows that it is the seemingly ineradicable tendency of men to vacillate between the extremes of government—from Jeffersonian simplicity to the imagined benefits (and inevitable restrictions) of complete statism. It is not argued in these paragraphs that we can return to the simple governmental forms that sufficed for our colonial and agrarian periods. We are a vast and

complicated aggregation of aims, interests, economic problems, political processes and social responsibilities. But through the years we have erected in Washington and throughout the states a bureaucratic monstrosity that is devouring our savings, crippling our economy, and stifling our initiative.

To some extent the cost and repressions of such overextension of government were felt in colonial times, and they aroused the anger of our sires, perhaps even more than the British denial of representative government had done. Jefferson himself was testy about it. As a philosophical statesman he was concerned about life, liberty and the pursuit of happiness; but as a tax-paying citizen he was both concerned and angered because the London bureaucracy had "sent hither a swarm of officers to harass our people and eat out their substance."

What does that sentence signify in terms of present-day American experience? Well, wholly apart from the several vast and ramified Departments of the Federal establishment—State, Commerce, Labor, Justice and so on—there are now sixty-one so-called Independent Agencies, plus seventy Boards, Committees and Commissions, that have been created by the Congress. I have no figures on the number of people employed in them, but it is of

course very large; and for the government as a whole, not counting those in the several military services, there are now very close to three million people on the Federal payroll!

### **A Costly Army**

No question is here raised about the efficiency of those people, or their honesty and devotion. They are citizens, employed to do work projected by the Congress. But they *do*, "eat out our substance." They *do* cost money—millions, billions of it in the aggregate. And they do contribute to the accumulation of a debt that now exceeds the utterly incomprehensible figure of 600 *billion* dollars.

Who owes that debt, and must finally pay it, one way or another? The government? Not really. The ultimate debtor: We, the people!

But the materiality of such dollar-statistics is really not what I am reaching for. Rather, I am trying to express the proper relationship of the citizen to his government and vice versa; and that relationship is not expressible ideally in terms of dollars or the cost of bread. To be sure, man *does* live by bread and the nutrients it symbolizes—not alone, of course, for there is a higher nourishment; but food and shelter are important needs, and even our moments of purest philosophy and warmest philanthropy are influ-

enced and modified by the shape and size—and cost!—of our physical and political environment. Pseudo social scientists who envision the Superstate as the Mother-Father image of the future seem happily unaware that a shattering blow can be dealt to both economic and political theorizing by such a crass bit of realism as the price of beans!

It is a far cry, from our present-day, Washington-centered politico-economic set up, back to the ideals of the Founders. It is the fashion these days in leftward circles to assume that the vast spate of so-called social legislation, and the resultant enormous cost and sprawling bureaucracy, is all in keeping with the “revolutionary” ideas of the men who wrote the Constitution. Especially during these past two or three years, when we were in a Bicentennial euphoria, we have heard a lot of cant about the “radicals” and “revolutionaries” who sparked the American War for Independence and devised the American form of government. A great deal of this maudlin output was either grossly overdrawn or flatly and ludicrously false.

What, after all, was the aim of those men who directed the American destinies for some years before, and during, that fateful summer of 1787 when the Constitution was being drafted? Certainly it was not “revolution” in the modern sense of the term. Indeed, that word does not

occur in the Declaration of Independence; and so far as I can discover, it was little used in the literature and oratory of the period. Even Patrick Henry’s impassioned plea was not for revolution, but for liberty. And when the term “revolution” was employed, it referred not so much to the act of separation from the mother country, as to the evolution of thinking among the American people—as when John Adams, years later, wrote that “the Revolution was in the minds and hearts of the people.” No, the Founders were not aiming at revolution, but reason; they were not out to destroy, but to build.

They had reluctantly fought an unwanted war—a war which, judged either by logic or logistics, they hadn’t a chance of winning. In that desperate gamble they were well served by the tenacity, cunning and superb generalship of the man from Mount Vernon, plus the wiles of Benjamin Franklin in luring France into the conflict. But now that was all past. Now they were on their own in the big world of nations. The makeshift, ramshackle machinery of the old Confederation, which had haltingly enabled them to ride out the war years, was a totally inadequate craft for the waters upon which they were now embarked.

They started out, first of all, with a healthy fear of the very institution they were charged with

creating—namely, government. Recognizing the imperative need for it in the regulation of human affairs, they were nevertheless fully aware of its potential threat to the self-same liberties it was designed to preserve. They were, for the most part, men of considerable scholarship, versed in history and familiar with the writings of social and political philosophers like Locke, Montesquieu, and Blackstone.

Moreover, Adam Smith's long-awaited *Wealth of Nations* had been published in 1776, and by the summer of 1787, when the Constitution was being hammered out in Philadelphia, the Scotchman's masterpiece had been widely read in America, as it had in England and on the Continent. The framers of the Constitution were almost certainly familiar with its major premises. They were not all paragons of wisdom and virtue. They could and did play politics, quarrel, impute motives, take advantage. Bitter wrangling developed between those who represented the smaller states like Delaware, Maryland and New Jersey and their opposite numbers from such big commonwealths as New York, Pennsylvania, Massachusetts and Virginia. In other words, they were a convention of men. But they were enlightened men; and with all their differences they were devotedly committed to the task of making a nation.

They knew first of all that government, of some kind, is necessary. The ideal thing would be for men to live together in harmony, without need of control or direction. Indeed, one of the delegates was soon to express this, in the so-called Federalist papers, published to win support for the Constitution. "If men were angels," he wrote, "no government would be necessary." And he went on: "In forming a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place, oblige it to control itself."

### Limited Government

But men, alas, are not angels; and even if they were, conflicts might arise—witness Lucifer's revolt, as chronicled at considerable length by John Milton. But let's not be facetious. Men being fallible creatures, we confront the simple fact that they need to be protected—first of all, from one another! Also the mechanics of their civilization, as they have matured through the centuries, layer by layer and culture by culture, on the several world stages—those mechanics, or rather mechanisms, require to be guarded, protected from abuse, and, to a minimal degree, regulated. Hence government.

Once in a whimsical moment I

fabulated in verse the origin of one such civilizing mechanism. In my fable a primitive hunter, back from a wearying chase with a haunch of venison over his hairy shoulder, was downcast because he had shattered his last flint-head spear, and must spend much time and effort to fashion another. But his neighbor, a cripple who could not go afield to hunt, had several flint heads all chipped out—but no meat in his cave. So, in a great flash, it came to them that they could swap and each be the gainer. Thus trade was born; and I summarized its essence in two lines:

Each gave the thing he least  
required,  
And gained the thing he most  
desired!

It was that simple principle, applied across the broad spectrum of man's physical needs, which developed into the socio-economic mechanisms that came to be known by such names as the division of labor, specialization, craftsmanship, industry, exchange, money—in short, the implements of trade, the Great Civilizer.

For it was not alone to physical comforts and necessities that the principle of exchange was applied beneficially. If it could enable the hunter, the fisherman, the tanner, the spinner, the weaver and a hundred other specialists to de-

velop and ply their crafts through the trading of skill for skill as expressed in product, it could also make possible a like extension in things of the mind. It could and did lead to the development of science and art and literature. The great principle of exchange, like a shuttle in the loom of time, helped weave the fabric of civilization.

### **Remove the Restrictions**

By 1783 the American Colonies were, of course, heavily involved in all the ramifications of a commercial, industrial and agricultural economy. Under the restrictive British bureaucracy the rights of the Colonials in all these areas had often been impeded and at times ruthlessly restricted. Those charged with devising the new government were aware that the greatest possible spirit of individual enterprise and initiative should be encouraged—not by subsidy from public funds, nor by the relaxation of vigilance in upholding necessary laws, but by the removal or non-imposition of all unneeded restrictions.

They wanted, it seems clear, a government under which Americans could pursue their respective interests through peaceful production and exchange in the open market—buyers and sellers, producers and consumers, suppliers and customers, in a beneficial interchange.



Freedom! That was what they were after; not just relief from whimsical bureaucratic restrictions, but freedom to make, produce, trade, sell, buy, invent, invest, build, save, spend—freedom, in short, to live the sort of life that is natural and normal to an industrious, inventive, adventurous and acquisitive people.

Acquisitive? Whoa there a minute! Better be careful here. Better tread softly. You see, to acquire is to get; and in certain over-delicate circles acquisition is equated with something like social piracy, as though “getting” anything is always done at someone else’s expense. And indeed it sometimes may be done so—and that’s where the State, represented by the Law, comes in. In a negative sense, that’s what the State is for. But while Webster’s says that to acquire is to gain “by any means,” it adds, “usually by one’s own exertions.” And in that sense we have indeed been an acquisitive people—and three rousing cheers for it! Home ownership, competence, security, stability, industry, application, independence—these are at once the products and the motivation of acquisition. They are also the foundation stones of responsible government.

By creating a governmental environment favorable to personal initiative, the Founders laid the foundation for our greatness as a nation. Despite the drain of several wars—

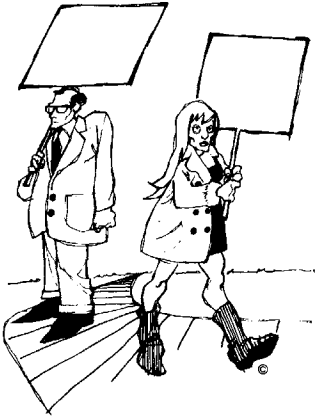
the long-felt burden of debt from the War for Independence itself, the ghastly toll of the Civil War, and the staggering outlays for the first and second World Wars—despite these colossal burdens, the nation grew, expanded and developed into the globe’s greatest power. And at the same time it exceeded all others in the material welfare of its people.

The big question now is: Where do we, the people, go from here? No account has been taken in these paragraphs of our more recent performances on the world stage and in our domestic economy, nor of the added debt, bitterness and loss of prestige that have resulted. That is an article—a book, *a library!*—in itself.

The American problem today is not what we do about the world, but what we do about us, the people, and about us, the nation. Shall we resume our travels on a path of destiny—travels that have made us great and strong and useful in the world? Shall we rid ourselves of smothering debt through sufficient self-denial? Shall we once again be solvent as well as sovereign? Shall we halt the march to national bankruptcy? Shall we avoid the killing inflation that wipes out savings, destroys credit, and brings chaos?

If we do, who will benefit? If we do not, who will pay?

To both questions the answer is: We, the people. ☉



# A Christian View of Labor Unions

WHY should we speak of a Christian view of labor unions? The best reason is that almost all Christians have some opinion on the place of work in the life of a Christian. Max Weber, the German social scientist, wrote an important book at the turn of the century, *The Protestant Ethic and the Spirit of Capitalism*, in which he argued that the idea of the calling—one's vocation—was a central feature in the attitudes of Protestant laymen who helped lay the foundations of modern production methods and organization. If the idea of work is central to the Christian tradition, and this tradition led to the creation of modern capitalism,

then we ought to pay attention to a related topic, the labor union.

Labor unions are not the major part of the total American labor force, contrary to popular opinion. They are important in the large industries such as autos, steel, and television, but only about 25 per cent of the American labor force belongs to any union, and many of these are weak, rather insignificant organizations. As I hope to demonstrate, it is almost impossible for trade unionism ever to control over half of a nation's labor force in a democratic country, and where unions control more than this, labor mobility will be reduced markedly.

Do unions raise wages? Unquestionably they do. Do monopolies in business raise prices? Unquestionably they do. Labor unions raise

Dr. North is editor of *Biblical Economics Today*, from which this article is reprinted by permission.

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wages in exactly the same way that a business monopoly raises prices: by artificially restricting the supply of a particular resource. Over the long run, with rare exceptions, no monopolist can keep prices raised in this fashion apart from direct government interference into the market. If the government keeps out competitors, then it is possible for monopolists to keep prices above what they would have been in a free market for years or even decades. In the case of diamonds, the DeBeers oligopoly has kept diamond prices up throughout the twentieth century, but it takes the collusion of the South African government to maintain this monopoly (or at least it took such collusion originally).

### **Monopoly Pricing**

The economics of monopoly pricing is the foundation of all modern trade unionism. This is either not understood by the supporters of trade unions, or else it is rejected as irrelevant. You will search your days in vain trying to find a supporter of trade unions who is also a supporter of business monopolies, yet the economics of each is identical. The labor union achieves higher than market wages for its members by excluding non-members from access to the competition for the available jobs. In other words, those who are excluded must seek employment in occupations that they regard as

second-best. They bear the primary burden in the marketplace; they are the ones who pay the heaviest price for the higher than market wages enjoyed by those inside the union.

How can unions exclude outsiders from the bidding process? There are many ways, all used effectively by unions over the decades. First, there is raw power. They beat up their competitors. They throw paint bombs (paper bags filled with paint) at the homes of their competitors. They threaten the children of their competitors. Their children exclude the children of the competitors from social activities at school, meaning public (government) school. They shout "scab" from their picket lines. (Strange, isn't it, that those who defend labor unions seldom shout "scab" at Ford salesmen who are challenging the so-called monopoly of General Motors?)

Second, and most effective, trade unionists have been able to convince legislators to enact legislation that excludes non-union workers whenever 50 per cent plus one worker vote to choose a particular labor union as the sole bargaining agent in a plant or industry or profession. The skilled trades were the first to get state governments to pass such legislation, and immediately blacks in the South disappeared from the skilled trades. Then professional associations got such legislation passed, most nota-

bly lawyers, physicians, and dentists. Then, in 1935, the Wagner Act was passed at the national level. It established the National Labor Relations Board (NLRB), a consistently pro-union bureaucratic Federal agency. As far as the favored unions are concerned, 75 per cent of all workers are potential "scabs," and the NLRB keeps them in their second-choice jobs.

There is a third, less evident, means of insuring labor union monopoly pricing. This is the minimum wage legislation. This legislation is always supported by trade union officials, whose members are always earning wages higher than the proposed minimum wage. This legislation sees to it that regions that have less developed unions, such as the South—in fact, primarily the South—cannot attract industry so easily from the more heavily unionized Northeast. The minimum wage was the primary means of warfare by unions against non-union workers after World War II until very recently. It still may be the primary weapon. The primary loser is, of course, the urban teenage male black, who cannot get into the Northern union, or migrate to the South, or offer services to employers that are worth the minimum wage.

Employers pay higher wages than the market would have dictated when their labor force is unionized.

Of course, employers outside union domination pay lower wages, since they are not compelled by competitive market forces to bid away labor from unionized firms. Since 75 per cent or more of all workers are not in a union, they cannot gain legal access to the labor markets where 25 per cent of the workers are employed. They have to work elsewhere. Thus, non-unionized employers are granted a subsidy from government: lower priced workers.

When was the last time you heard a supporter of labor unions argue that the reason why unions are wonderful is because they grant a subsidy to the employers who employ 75 per cent of the American labor force? Yet this is precisely the economic effect of compulsory government-enforced trade unionism.

### **The Law of Market Competition**

"Buyers compete against other buyers. Sellers compete against other sellers." Not that difficult a concept, right? Apparently it is the most difficult concept in economics, if we are to judge by the arguments people use in favor of increased government intervention into the free market.

Buyers of labor services compete against other buyers and potential buyers of similar (substitutable) labor services. This means that employers are in constant competition

against other employers in the labor markets. They are forced to bid up the price of labor until the point that they can no longer afford to hire any more laborers, or, in the case of the most successful bidder, until all the competition has dropped out of the field. This is the explanation for the curious phenomenon that labor unions subsidize non-unionized industries that are buying labor services from those excluded by law from competing for jobs in unionized industries. The buyers of labor in unionized industries have been compelled by law to depart from the "labor auction" in which 75 per cent of American workers are offering their services to the highest bidder.

On the other hand, sellers compete against sellers. This means that those who are harmed by trade unionism are those excluded from union membership. They are denied the right to compete for jobs in certain segments of the economy. They have been denied their right to bid, just as the employers in the unionized markets have been denied their right to bid.

The biblical view of man is work-oriented. It affirms that man was placed on the earth to subdue it to the glory of God (Gen. 1:28; 9:1-7). It is not each man's right to work. It is his *duty* to work. What is his lawful right is his right to compete for the job he wants, his right to compete for the labor services he wishes to pur-

chase. No one has a right to my job, including me. Anyone should have the right to compete for my job, including me. And I have the right to compete for his.

### Strikes

The striker argues that he has the right not to work, but his employer does not have the right to hire someone to replace him. Modern compulsory trade unionism is based on the wholly immoral premise that the worker owns his job (can exclude others from the position) even though he refuses to work for his employer. To add insult to immorality, most trade unionists also want government food stamps, unemployment benefits (tax-free), and other forms of taxpayer-financed benefits while they are striking. The consumer is supposed to finance his own funeral, and the coercion of law then becomes total.

Obviously, nobody inside the union could reap monopoly wages if everyone were in the union who wanted to compete for the available jobs. The union would then become superfluous. It is only because of the artificial barriers set up against other workers that the union members reap their monopoly gains. This is the reason why, economically speaking, the trade union movement in its present, coercive form will never be more than a minority movement. The union needs the ma-

majority of workers outside the union movement, since the union membership has to have victims among the working class in order to reap its monopoly returns.

Once a man's contract has expired, he should have the right to walk off the job if he wants to. He should not have the right to keep his employer from hiring a replacement. Similarly, any employer should have the right to fire a worker, once the contract has expired. But he should not have the right to exclude that worker from competing in other labor markets. Trade unions deny both these premises.

Voluntary unionism is lawful, so long as the civil government does not do more than enforce the contracts agreed to by employers and

laborers. A union can help to spread information of better wages or better jobs, thereby helping its members to keep alert to the true value of the services they are offering for sale. Unions can be self-help societies. But when compulsory, under coercive civil law, they are immoral. They must be recognized as such by orthodox Christians. ☹

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For further reading, see Prof. Sylvester Petro's many books, including *Labor Policy of the Free Society*, *Power Unlimited: The Corruption of Union Leadership*, *The Kohler Strike*, and *The Kingsport Strike*. Also of interest: W. H. Hutt, *The Strike-Threat System*.

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### Let the Market Decide

IDEAS ON

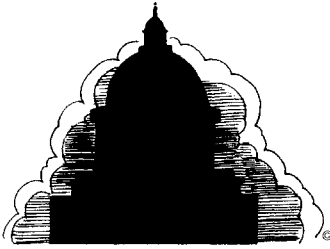


LIBERTY

IF YOU BELIEVE that the state should not intervene in dealings between employers and employees, then that means not only no Wagner Acts, but no right-to-work laws and no administrative review of wage settlements as well. Yet we seem to be headed for ever more intervention by the state in dealings between employers and employees, in the internal affairs of unions, and in the wage-price relationships in industry. Having created our Frankenstein, we are now going to break him to our will.

In the process the state is almost certain to undertake to dictate decisions about matters that should be left to the market place, and to create authoritarian patterns of action that will be degrading and debilitating to employers and employees alike.

BENJAMIN A. ROGGE, "The Labor Monopoly"



# WHAT GOVERNMENT OFFICIALS CANNOT KNOW

AS GOVERNMENT grows ever larger, it is perhaps wise to ask if there are limits to the knowledge of government officials. If there are limits, and if government has grown beyond these limits, then government officials are intervening in matters of which they are necessarily ignorant—can have no knowledge.

Let us concentrate on a basic form of ignorance familiar to all: ignorance of what other people are thinking. In particular, consider what a government official can and cannot learn about the preferences, expectations, and plans of his fellow men. Using our results, we can sketch some areas in which government officials cannot know what they are doing.

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

What can be learned about another person's preferences? Suppose we see Mr. Smith buy rye bread for one dollar. This tells us that at the time of the purchase he valued the rye bread more than the dollar. If there was pumpernickel on the next shelf, and if we assume that he noticed it, we can also conclude that at the time of the purchase he preferred rye bread over pumpernickel.

But will he prefer rye bread to a dollar tomorrow? What about his tastes in other goods? How about all his other preferences? And did he really notice the pumpernickel?

To find out, we can ask. But what a person says he would prefer in a given situation is often different from what he actually prefers when the time comes to choose. There are several reasons for this. First, a per-

son's preferences may change between the time he is questioned and the time he faces a given choice. Second, when a person faces a situation he may find that it is different from what he had imagined it would be when he was questioned. In addition, he may not completely understand the questions, be in a rush to complete the questioning, give less than truthful answers, or simply have no idea of what he would prefer at some later date.

Thus, the only way to be sure of a person's preferences is to observe his choices. And even then we can only learn a person's past preferences, because the next time he might choose differently.

Suppose now that, instead of having the dollar available to buy rye bread, Mr. Smith had paid the dollar in taxes. Then we can never know what Smith would have done with the dollar, had he been free to use it as he saw fit. If the government gives the dollar to Mr. Jones, we can, of course, observe what Jones does with it and thus learn something about his preferences. But, because Smith no longer has the dollar, we can never learn the use he would have preferred.

Thus a government official, in redistributing wealth, cannot know how the taxpayers would have preferred to use the money they paid in taxes.

But doesn't the government, in

redistributing wealth, help poor Mr. Jones more than it harms rich Mr. Smith? That is, doesn't the redistribution cost Mr. Smith less than it benefits Mr. Jones?

### **No Way to Know**

We have seen that a dollar has gone from Smith to Jones. How much did this dollar benefit Mr. Jones? We can observe what he does with it, but what does that tell us? If he spends it for eggs, we know that at the time of the purchase he valued the dollar less than the eggs. But this tells us nothing about the value he placed on the dollar compared with the value Mr. Smith placed on the dollar. In fact, because Smith no longer has the dollar, we cannot even learn what he would have done with it. Smith himself may not even know, because who knows what he will ultimately do with every dollar?

Thus, there is no way to know if the redistribution of wealth benefited Jones more than it cost Smith. In fact, there is no way to know if any government intervention yields benefits which are greater than the costs.

This is because costs and benefits cannot be measured. In our example, the redistribution cost Mr. Smith whatever he would have done with the dollar. There is no way to measure how much he valued this lost opportunity. In fact, the value he placed on the dollar probably



changed over time—as his income changed, prices changed, and other circumstances changed. Similarly, the value Mr. Jones placed on the dollar, and thus the benefit he acquired in receiving it, also probably changed over time.

If a government official cannot know how much an intervention costs one individual and how much it benefits another individual, he certainly cannot add unknown costs and benefits to find “social costs” and “social benefits.” Costs and benefits have meaning only to individuals and can be known only by the individuals directly involved. In particular, we cannot assume that a “uniform” intervention, such as a uniform tax of \$1000, imposes the same costs on every person, because we don’t know the value each person places on \$1000—nor can we assume that these values are constant. Similarly, if everyone must wait half an hour to buy price-controlled gas, we cannot assume that waiting imposes equal costs on every person.

Consider, for instance, the costs of a volunteer army versus the costs of a conscripted army. It is often assumed that because a volunteer army requires higher military pay than a conscripted army, that a volunteer army “costs” more.

This is an unwarranted assumption. We cannot know the true costs of the higher taxes needed to attract volunteers because we cannot mea-

sure the value each taxpayer places on the money he pays in taxes. In addition, we cannot know the costs that conscription imposes on draftees. We can assume that draftees would rather be civilians, otherwise they would have volunteered. But no one can measure the value each draftee places on a return to civilian life. In short, there is no way to compare the costs borne by taxpayers versus the costs borne by draftees.

### **Cost-Benefit Analysis**

Conscription is an example of the error in trying to place a dollar figure on the costs and benefits of government intervention. “Cost-benefit analysis” cannot be used to justify government intervention because no one can measure the true costs and benefits.

In fact, cost-benefit analysis can be used to argue against all intervention. If someone wants something enough to bear the costs, he will voluntarily take appropriate action. If he believes that the benefits do not exceed the costs, he will abstain from such action. Government intervention tries to force people to bear costs that, as those people see it, exceed the corresponding benefits.

Public goods are another example of intervention based on ignorance. It is argued that government must provide services such as welfare, parks, public schools, public hous-

ing, and public television because, although "everybody wants them," no one is willing to pay for them except if all his neighbors are taxed to help pay the bill.

This is a peculiar line of thought. We are told that people want something, though they won't voluntarily pay for it! Not only is this absurd, it assumes that the proponents of public goods know how people would use their money if it didn't go for taxes. As we saw earlier, the only way to know how a person prefers to use his money is to stand back and let him use it.

Antitrust is another area where government is intervening in ignorance. At the root of antitrust legislation is the assumption that, under certain conditions, a firm can raise its asking prices, sell less, and make more money than if it sold more items at lower prices.

In theory, this may occur. But no one knows if it actually happens or when it happens.

Suppose, for instance, that National Motors is the only manufacturer of a unique sports car and produces a limited supply which all sell at a "high" price. Did they make more money than if they manufactured more of these cars and sold them all at lower prices?

No one knows. We know that each buyer, at the time of purchase, preferred the sports car over the money it cost him. But we don't know how

many people would have bought such a car at a lower price. That is, we don't know how many sports cars could have been sold at lower prices so we don't know if National Motors made more money selling its limited-edition at "high" prices. No one knows if National Motors reaped "monopoly gains."

### Measuring Expectations

Let us now consider what can be learned about another person's expectations. Although observing a person's actions yields limited information about his preferences, it tells us nothing definite about his expectations. The most we can say is that a person is acting "as if" he expects something. A man carrying an umbrella may be acting as if he expects rain, but he may just be returning it to a friend. The problems involved in asking about preferences carry over to asking about expectations, with a new twist—asking about a person's expectations may change his expectations.

For example, a temporary investment tax credit may be used to try to stimulate investment. The first time such a tax credit is introduced it might come as a surprise and produce the desired results. But if the stimulant is used again and again, businessmen may learn that a lagging economy is likely to be followed by a tax cut. If they expect a tax cut, they will tend to postpone

investment until after the tax credit is enacted. Thus, the expectation of a tax credit may reduce, rather than stimulate, investment. And clearly, if a government official asks a businessman if he expects a tax cut, the businessman may suspect that one is forthcoming.

A similar situation occurs with price controls. If businessmen expect price controls, they may prepare for them by raising their list prices and offering discounts, free delivery, better guarantees, and other improved terms of sale. When the controls arrive, and the government continues to inflate the quantity of money, the improved terms of sale will tend to disappear. Thus, the anticipation of price controls may increase, rather than decrease, list prices.

The lack of knowledge of expectations is especially evident in monetary policy—the government's tampering with money and credit.

For several decades, Keynesian economists have told us that the cure for unemployment is for the government to inflate the quantity of money so as to keep ahead of union wage increases—based on the assumption that union leaders would not anticipate inflation. But, as years have passed, it is clear that unions have learned to anticipate inflation and now demand raises plus cost of living clauses. Governmental ignorance of personal expecta-

tations has been an important factor in producing our current high rates of inflation and unemployment—which according to Keynesians should not occur together.

### **Controlled Inflation**

The Monetarists prescribe another form of monetary intervention—that the government inflate the quantity of money at a fixed rate so that everyone could better anticipate changes in the "price level." In this way, it is held, economic booms and busts could be avoided.

But, changes in the "price level" are not the cause of booms and busts. Rather, booms and busts are the result of government manipulation of money and credit.

For example, suppose the government tries to stimulate the X industry by pumping in money and credit. This creates a boom in the X industry, as prices tend to rise in that industry, and natural resources, labor, and capital goods are drawn into it. But the increased bidding for natural resources, labor, and capital goods causes their prices to rise and the X industry experiences increased costs. The increased costs spell the end of the boom, and if the government doesn't continue pumping money into the X industry at a faster rate than is generally anticipated, costs catch up with prices and the X industry suffers a depression.

Clearly, the situation is only worsened if the government tries to stimulate more than one industry—or the entire economy.

Thus, it is unanticipated injections of new money at specific points in the economy that create booms, and unanticipated increases in costs that end the booms. To avoid these booms and busts it is not sufficient to inflate the quantity of money at a fixed rate so that people could supposedly better anticipate changes in the "price level." Rather, booms and busts can be avoided in an interventionist economy only if everyone correctly anticipates where the new money will be injected, when it will be injected at each particular point, and how the prices of specific factors of production will react—clearly an impossible task. The only way to end economic booms and busts is to end government tampering with money and credit.

In sum, unavoidable ignorance of expectations can make a shambles of government attempts to quarterback the economy.

### **Other People's Plans**

Let us finally consider what can be learned about another person's plans. As with preferences and expectations, asking a person yields nothing definite about his constantly changing plans. The most we can say is that a person is acting "as if" he has certain plans. But even

this yields nothing definite. If we see someone cutting down a tree, are we to conclude that he is doing it to clear a field, for firewood, for logs to build a cabin, to sell to a sawmill, or just for the exercise? Or is it for a combination of reasons? We can continue watching and see what he does after the tree is felled, but what he does after is not necessarily what he planned to do before.

Having no certain knowledge of other people's plans, a government official cannot know how an intervention changes their plans. In particular, he cannot know what plans they would have carried out were it not for the intervention. For instance, no one knows how entrepreneurs would carry letters were it not for the government's postal monopoly.

Other examples abound. For instance, we know that an increase in the minimum wage is a disincentive to employ workers with low productivity. But no one knows how many people would have planned to hire workers were it not for the minimum wage. The minimum wage disemploys workers, but no one knows how many—so no one can defend the minimum wage because he "knows" the resulting number of unemployed will be small.

Similarly for all other interventions. We know that unions tend to scare labor and capital from certain industries, but no one knows how

much. Rent control scares away new housing, but no one knows how much. Social Security reduces the means and incentive to prepare for retirement by making productive investments, but no one knows how much investment is lost. And on and on. Government officials have no way to measure the damage caused by interventions because no one can measure how interventions change people's plans.

Having shown how the limits of knowledge can be used to argue against government intervention, a few words should be said about the absence of intervention—the free market. In the free market, prices are determined by the preferences, expectations, and plans of everyone in the market. Thus, although we still possess very little direct knowledge of the preferences, expectations, and plans of others, market prices convey them to us indirectly

in highly condensed form. For instance, consumer preferences are expressed in the selling prices of consumers goods, expectations are expressed in stock market prices and futures prices, and entrepreneurs' plans are expressed in the prices of capital goods. If a businessman acts in harmony with these preferences, expectations, and plans, he earns profits; otherwise he suffers losses. Thus, the free market profit and loss system tends to coordinate businessmen's decisions with the preferences, expectations, and plans of their fellow men.

When government intervenes in the market, prices are distorted and thus no longer convey the preferences, expectations, and plans of others. When government completely controls the economy, "prices" lose their meaning, and we are governed by ignorance. ☉

### Individualism

WHAT INDIVIDUALISM TEACHES us is that society is greater than the individual only in so far as it is free. In so far as it is controlled or directed, it is limited to the powers of the individual minds which control or direct it. If the presumption of the modern mind, which will not respect anything that is not consciously controlled by individual reason, does not learn in time where to stop, we may, as Edmund Burke warned us, "be well assured that everything about us will dwindle by degrees, until at length our concerns are shrunk to the dimensions of our minds."

IDEAS ON



LIBERTY



# The Future Is Purchased Today

THERE is something thrilling and exalting in the thought of the future. It elevates human nature and makes man happier and better. The present does not satisfy; man reaches out to the future with its intimation of eternity and immortality.

Man does not have a knowledge of things to come. And yet, his blindness to the future does not deter him from preparing for it. Standing firm in the world of daily tasks, he is making preparations in all his aspirations, be they religious, cultural, social, or economic.

In the sphere of business all future-oriented activity is often

called "speculation." The businessman who is building a plant or store speculates on future business conditions that will hopefully permit him to retrieve his investment. The merchant who places a purchase order for future delivery speculates on future demand for his merchandise. Even the young physician who chooses to settle in a certain community to build his practice speculates on the economic future of his community and the demand for his services. They all lack the knowledge of things to come, but are hopeful that future changes and developments will reward their present decisions. And they all are taking various measures of risk that flows from the uncertainty of the future.

And yet, all such future-oriented activity has come under a dark cloud

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of suspicion. It is more popular to live in the present for instant gratification of wants and desires. Public policy promises benefits and services *now*—even at the expense of the future. He who steadfastly keeps his eyes on the future faces censure and condemnation as a "speculator." In a strange twist of terminology the "now-generation" questions his motivation and denounces him as a "self-centered," "greedy" monster seeking profits from changes. Countless laws and regulations aim to seize his rewards and restrain him from searching for the future.

The conflict is as old as man himself. It arose on his first day on earth when he became aware of tomorrow. Was he to allocate his labors to the urgent needs of the moment or to the demands of tomorrow? The answer to this question provides an important explanation of wealth and poverty. Present-oriented societies linger in perpetual poverty always living from hand to mouth, while future-oriented societies soon prosper and multiply. It also gives rise to great differences in individual income and wealth, which in turn breed envy and covetousness and bring forth countless schemes and policies toward a new redistribution. It makes the successful entrepreneur a favorite target of envy to present-oriented individuals who fail to comprehend entrepreneurial

and speculative activity. Preoccupied with the present, and chronically poor and always unprepared, they tend to suspect all those individuals who differ in outlook and life-style.

Speculation also upsets those politicians and officials who would like to guide and direct society. They are eager to direct the destiny of all, which they call "central planning." When some individuals shape their own plans and act independently of the central planners, it is "selfish speculation," "unplanned," "atomistic," "harmful," and "chaotic." When central planning fails dismally and inflicts great harm on countless victims, the blame is laid invariably on "speculators." When the stock market crashes and economic depression seizes the country, the speculators caused it. When the U.S. dollar falls in purchasing power and sinks to lower levels in world money markets, the speculators sold it. When central planning creates an energy crisis, the political planners denounce the speculators and impose more stringent controls on individual initiative. In fact, the speculator is depicted as the personification of all human vices and failings.

Such diatribes merely reveal the great schism that separates the two conceivable systems of economic and social organization: the private property order with its individual

freedoms, and the command system with its political coercion in many aspects of social life. Man always must choose between these two modes of organization. For long periods of time he chose the command system under such labels as feudalism, mercantilism, fascism, socialism, or communism. But occasionally Western man chose to be free and independent, unconfined by political limitations and controls. The history of the United States provides a splendid example of such an order.

The free order is also a future-oriented order inasmuch as it permits its members to save and invest for a better future. It liberates man from ancient restraints and limitations that shackle his initiative and creative energy. In a free society the future takes the deepest root, and is most discernible, in the plans and aspirations of the great entrepreneurs and geniuses of enterprise. Through their actions and provisions for the future they greatly affect the daily lives of their fellowmen. Their names and exploits are familiar to most Americans. John D. Rockefeller, Andrew Carnegie, J. P. Morgan, and Henry Ford were dramatic leaders, bold and original, with visions of change and a better future. Under their leadership and that of many other exceptional men the U.S. had become the most productive country on earth by 1893,

and American wage rates and standards of living soared to the highest levels in human history shortly before World War I.

And yet, these men have become important symbols of an economic order that stands condemned in the eyes of many of our contemporaries. Textbook writers utilize them to illustrate personal greed and lust for power that allegedly characterizes the period of "unbridled capitalism." Contemporary literature censures them for the poverty and misery of their workers from whom the great fortunes allegedly were taken.

We need not dwell here on the great achievements of those exceptional men who affected the economic lives of so many Americans. Nor need we analyze the motive powers that drove those men to such performance. Their motives probably did not differ from those of most other men in other ages and places. But we need to be mindful that their very appearance presupposed a climate of individual freedom that is so rare in human history. Surely, they were "unbridled" with political edicts and controls, confiscatory taxation and regulation, and many other manifestations of the command order. They were left free to try and experiment, to save and invest for a greater future. No matter what we may think of them as individuals, we must ad-



mire the society that set them free and let them pass unencumbered by the strictures of envy and the demands of the moment.

Present-day Americans would never tolerate the exceptional man who creates new industries on the ruins of old production. There can be no Henry Ford in the present climate of our political economy. Under the influence of ancient ideologies modern man is suspicious of individual freedom that gives rise to economic inequality. He uses his political apparatus of coercion to maintain and restore some measure of equality. His tax collectors seek to extract the lion's share of "unearned" individual income and wealth. And his numerous officials in a host of regulatory agencies seek to restore equality and provide equal opportunity through stringent supervision and control.

Under the influence of old suspicions and prejudices modern man prefers to rely on political action rather than on voluntary cooperation. In the command order every individual is a wheel in a giant political machine and every sphere of his social life is politicized. And even where modern man has retained some democratic institutions, politics plays an important role in his life. Parliaments, which were originally set up to limit the profligacy of the rulers, are incurring huge ex-

penditures on behalf of the electorate. To be the favorite of an envious multitude, a politician must be on their level. He must desire what they desire, yield to their prejudices and substitute them for principles. Instead of enlightening their errors, he must adopt them. As a political leader he merely furnishes the sophistry that will defend and propagate those errors.

When he must choose between the needs of the moment and the demands of tomorrow, modern man opts for instant gratification of his wants and desires. He wants social benefits and services *now* through political redistribution and transfer. He preys on the richer members of his society, and when such revenues no longer satisfy him, he embarks upon massive deficit spending. That is, he consumes the savings of his more provident members. And finally, when their means no longer suffice to meet his insatiable demands for present benefits, he may consume his economic substance. In economic parlance, he may consume his productive capital, which previous generations created and left for him, and thus diminish the apparatus of production at the expense of future generations.

The future is purchased today. We have a number of choices. But all sales are final. ☩

The key to the survival of civilization is human liberty. When our liberty is gone—whether because some aggressor takes it from us by force, or because we ourselves willingly vote it away—civilized man will die.

# SURVIVAL OF THE SPECIES

Ben Moreell

WHEN Charles Darwin's book, *On The Origin of Species*, appeared in 1859 it was strongly condemned by those who believed that his theory of evolution contradicted the thesis that man is a creature of God. But now that Darwin's theory has been amended and corrected it is generally accepted that evolution is not a contradiction of God's designs for mankind.

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Well worth reviewing is Admiral Moreell's address before the National Association of Purchasing Agents at Cleveland, Ohio, June 13, 1950.

He was then Chairman of the Board and President of Jones & Laughlin Steel Corporation. As Chief of Civil Engineers of the Navy, he was noted for the incredible exploits of his Navy Construction Battalions, the Seabees, during World War II.

Today I want to discuss with you not the *origin* of species, but the *survival* of species; and I want to discuss this subject in terms of faith in my fellow man, which stems from a faith in God. I might have chosen a shorter title—a single word—liberty. For I believe that the key to the survival of civilization is human liberty. When our liberty is gone—whether because some aggressor takes it from us by force, or because we ourselves willingly vote it away—civilized man will die. Men will become robots, machines without minds, controlled and driven by godless masters.

I believe that God intended men to

be free to make their own decisions and to be responsible for the consequences of those decisions. Thus it seems to me that it is an act against God for men to pass laws which destroy individual liberty; which deprive persons of the responsibility for their own acts or for their own welfare. Such laws are advocated by persons who lack faith in God and in their fellow men!

It seems to me that there is convincing evidence to support my beliefs on this subject. And the basic evidence is found in the fact that no person is physically or mentally or morally identical to any other person. For example, everyone knows that the fingerprints of all persons are different. And these differences—these individualities, these inequalities—carry through all the physical, mental, and moral characteristics of mankind. It seems to me that if we have faith in God, we must realize that He had a purpose in designing us so that no person is like any other person; that is to say, so that each person is an individual. Let us examine this God-given individuality of men and speculate upon its relationship to liberty and responsibility and survival.

### **The Right to Choose**

It must be obvious that liberty necessarily means freedom to choose foolishly as well as wisely; freedom

to choose evil as well as good; freedom to enjoy the rewards of good judgment, and freedom to suffer the penalties of bad judgment. If this is not true, the word "freedom" has no meaning. Yet there are persons in America who wish to pass laws to force people to do only "good," or at least their concept of what is good.

These would-be dictators are not content with a preventive law which punishes a person who deliberately chooses to injure his neighbor; a law which prevents any person from forcing his viewpoint upon any other person; a law which penalizes the person who interferes with the liberty of others. On the contrary, these persons who arrogate to themselves the functions of God demand a *positive* law to compel others to do as they wish them to do. And—for some reason which I cannot understand—these same people use the words "liberty" and "democracy" to justify their plans to deprive other men of freedom.

These proposed laws are frequently justified on the ground that there are physical and mental inequalities in the world; that those inequalities result in economic inequalities; and that the primary function of government is to pass laws that will tend to equalize such inequalities. Is not this concept of government a rather brazen indictment of God? Is not this an acceptance of the communistic

theory of using force to take "from each according to his abilities" and to give "to each according to his needs"? It is true that no two persons are equal; and that some persons receive more pay for their services than do other persons. But my faith in God makes me insist that there is a logical and good reason for this fact.

### The Source of Progress

This inequality among persons is a law of nature, a law which is just

as unchangeable and just as necessary to understand as is any other natural law, as, for example, the law of gravity. This particular law is known as the "law of variation"; and from the unrestricted operation of this law of nature comes all human progress.

The law of variation permits children to be different from their parents. It permits brothers to think differently and to act differently. It permits the existence of both misers and philanthropists; saints and sin-

#### Variation and Change

The "higher" the form of life or of non-life composition, the more complex its variation and the more rapid the expected change that follows from crossing two of them. As the complexity increases, the "offspring" become less and less predictable. In chemistry, for instance, combinations of the different basic elements can result in innumerable compounds; possible mixtures of different possible compounds, in turn, magnifies beyond our capacity for comprehension the number of possible results. It is similar for the complex living organisms, like persons, where differences combine in the biological process into innumerable and wide differences. That is why persons differ so widely in their capacity to do different things, to comprehend different things, or to contribute to progress.

Out of this change comes "progress." And the greater the variation, the more rapid the progress can be. It makes no difference, so far as the opportunity for progress is concerned, whether the change is induced by the Unseen Hand of evolution, or by conscious choice as in the selection of a mate, or by learning from someone who is more informed, or by simply patterning one's acts after those who know better how to do a thing.

**F. A. HARPER**, *Liberty: A Path to Its Recovery*

ners; rich and poor. It permits inventors to invent, managers to manage—and purchasing agents to purchase. It permits each person to seek a job or profession which is most suited to his inherent talents and his desires. It encourages a voluntary division of labor, with resulting maximum efficiency and greater prosperity for all.

Without this variation—this unequalness—our social structure would be similar to that of an anthill or a beehive, where each member is born to do a certain predetermined job which he does with blind allegiance to his society and with no consideration of personal interests or preferences.

Unfortunately there are many persons in the world who hate variations and inequalities, who admire the type of society developed by the ants and bees. These people see that variation among human beings has allowed one person to produce more than another, with resulting differences in material possessions and comforts. And then these self-appointed supervisors of human destiny, who cannot tolerate variation, begin to agitate for a law to take away from the high producer and give to the low producer. They want to use the force of government to repeal the law of variation; to redesign mankind; to force their concepts of morality and economics on all other persons.

### Master Minds at Work

In this process they deny to every person the right to dispose of the products of his own labor as *he* chooses. On the contrary, it must be as *they*, the “master minds,” decree! These so-called “do-gooders” and “benevolent” legislators deny this right of choice to the producer because they fear that other people will spend their earnings in a pattern different from that which they would plan for them. They have no faith in the voluntary decisions of free persons!

For example, the person who earns the money might want to endow a college or a hospital or a summer camp for poor children; but the planner wants to take the money away from him and use it to subsidize “cheap” electricity for the people who live in Tennessee or in the Pacific Northwest.

The person with a good income might want to spend some of his money for a trip around the world, but the planner calls this “social inequality,” and he proposes a law whereby the government may take the individual’s money, by force, and use it for some so-called “socially useful” purpose like encouraging the growth of surplus potatoes, for which there is no market, in order that they may be destroyed.

Or the planner may propose to deprive the producer of his money and apply it to some alleged “social

good" like government ownership of housing, or a government steel plant, or government-controlled education, or some similar project which gives to government the power to tell the people what they must or must not do; how they must or must not live.

### **Enemies of Liberty**

I am willing to concede that the do-gooder may have the best intentions in the world. But it cannot be denied that the laws he proposes always involve more government, more government ownership and operation of the means of production, more government interferences in the distribution of what individuals have produced, more power for government and less freedom of choice for individuals.

I hold that the people who advocate these positive laws against freedom of choice are—knowingly or unknowingly—the enemies of freedom and progress. They themselves have lost all faith in liberty and in the ability of free persons to care for themselves and voluntarily to extend a helping hand to their neighbors in need. Thus they band together to advocate laws antagonistic to humanity; laws which restrain liberty, thwart variation, belie inequalities, and defy God's design!

Against the background of my many years of service in the Navy, I make this declaration: I do not fear

the Russian Army, or the atom bomb, or the hydrogen bomb, nearly so much as I fear this concept of using the law to relieve individuals of the responsibility for their own welfare and to deprive them of their freedom of choice. We can all see the danger of a military threat to our freedom. If we are attacked we will fight, and we will win! But few of us appear to understand this insidious process whereby we use our own laws and our own government to destroy our own liberties just as surely as if some foreign conqueror had power over us.

Here is an example of how we are deceiving ourselves: Let us suppose that some foreign power could confiscate the incomes of persons in America; and let us suppose, further, that this foreign power were to confiscate 89 per cent of the income of our most efficient producer. Would this producer continue to produce abundantly under such circumstances, or would he not soon relax and begin producing only enough to subsist himself and those dependent upon him? This situation is easy enough to understand when we visualize the confiscator as a foreigner. But we do not seem to understand it when the confiscator is a combination of fellow citizens. For we ourselves have voted to confiscate 89 per cent of the income of our best producers!

When will this confiscation of an

individual's income rise to 100 per cent? Do you believe that ambitious men who are hungry for power would stop short of this complete communism if, by going on, they could achieve their aims? Let us consider this question: Just how much liberty does a person *really* have when more than half of his earnings are taken from him without his consent and are spent for purposes distasteful to him?

### **The End of the Road as Liberties Slip Away**

It makes one wonder whether we are deliberately trying to destroy ourselves. All along this course our liberties begin to slip away from us. In the beginning this happens slowly and almost unnoticed. The "emergency" and "temporary" restrictions and compulsions by government are not generally recognized as lost liberties. But the end result of this procedure—a procedure that always comes neatly wrapped in the American flag and labeled "social justice"—is complete government control, complete loss of liberty, and the extinction of civilized man as we know him.

Why should this confiscation—a percentage of our production that even a conqueror would not dare to take—be called liberty? Why should the word "freedom" be used to describe these government compulsions and restrictions? Certainly the

founders of this republic had no such concept of freedom.

Now I know that those who disagree with me will say that this is a democracy and that we can vote for anything we please; that, in fact, we can vote to turn all industry and all income over to the government, if we so desire.

That is true; but consider this: It is also true that we could vote to re-establish slavery in America. Would that make slavery "right" or "democratic"? We could democratically vote to have a state religion and to force everyone to conform to the majority decision; but that would make a mockery of democracy and the right to vote. We can democratically vote to print enough money to give every person a million dollars; but would such exercise of the franchise help anyone except those who wish to destroy America?

All these measures—and others of a similar nature—could be enacted legally and democratically under the concept of majority rule. But would any person be so foolish as to say that they *should* be enacted? Will any thinking person say that a law is "right" merely because a majority has voted for it? *We must always remember that our Constitution was designed to protect the freedom of the smallest possible minority—one person—against the demands of the greatest possible majority—all other persons com-*

*bined*. That single idea of inalienable rights of the individual person is—or, at least, was—the fundamental spirit of the American tradition of government. And if we lose that concept of government, by force or by our own votes, the American dream of liberty will be ended.

I am very glad that we have a form of government that requires voting, because so long as this condition exists, there is nothing to prevent us from voting against these immoral laws that are leading the American people into bondage to their own government. It is still possible to turn back; and it is not yet too late to turn back. If we really want to face the responsibility, to pay the price, of a return to freedom, we can still have it.

### **How to Destroy Progress**

Let us speculate on the price which we must pay for liberty. First and foremost, all so-called “welfare” schemes must go; for dependence upon government will destroy progress and production in two ways: First, the high producers will not continue to do their best if most of the product of their labor is taken from them. Second, the low producers will not be eager to work harder if they know that government will guarantee to them the security of housing, food, medical care, old age benefits, and the other necessities of life. If we continue along this path

to the misnamed “welfare state,” we must soon find ourselves in the position of our Reservation Indians, who have had a system of government-guaranteed “security” for the past hundred years.

The inevitable result of such “security”—to the Indians or to any other people who try it—is dramatically told in a report from R. J. Rushdoony, a former missionary to the Indians on one of our American reservations:

One of the surest consequences of a government of “welfare” and “security” is the rapid decline and death of responsibility and character.

Whatever the pre-reservation Indian was, and his faults were real, he was able to take care of himself and had a character becoming to his culture and religion. He was a responsible person. Today he is far from that. The wretched security he has had, beginning with the food and clothing dole of early years, designed to enforce the reservation system and destroy Indian resistance, has sapped him of character. The average Indian knows that he can gamble and drink away his earnings and still be sure that his house and land will remain his own, and with his hunting rights, he can always eke out some kind of existence.

Government men too often hamper and impede the man with initiative and character. This is because their program inevitably must be formulated in terms of the lowest common denominator, the weakest Indian. In addition, the provisions of the government for the “welfare” and “security” of the Indians remove the



consequences from their sinning and irresponsibility. The result is a license to irresponsibility, which all the touted government projects cannot counteract.

And I believe the results would be no better for the best hundred or thousand persons selected from any society, after a generation or so of the same kind of "welfare" and "security" government. . . .

### Slavery in America

Let us look at another example from our own history. Here is a statement from an article called *Wards of the Government* by Dean Russell:

The constitutions of former American slave states generally specified that the masters must provide their slaves with adequate housing, food, medical care, and old-age benefits. The Mississippi Constitution contained this additional sentence:

"The legislature shall have no power to pass laws for the emancipation of slaves. . . . (except) where the slave shall have rendered the State some distinguished service;"

The highest honor that Mississippi could offer a man for distinguished service to his country was personal responsibility for his own welfare! His reward was freedom to find his own job and to have his own earnings, freedom to be responsible for his own medical care, freedom to save for his own old age. In short, his reward was the individual opportunities—and the personal responsibilities—that have always distinguished a free man from a dependent.

What higher honor can any government offer?

But many present-day Americans are trying to avoid this personal responsibility that is freedom. They are voting for men who promise to install a system of compulsory, government-guaranteed "security"—a partial return to the old slave laws of Georgia that guaranteed to all slaves "the right to food and raiment, to kind attention when sick, to maintenance in old age. . . ." And the arguments used to defend this present-day trend toward the bondage of a Welfare State are essentially the same arguments that were formerly used to defend the bondage of outright slavery.

For example, many of the slaveholders claimed that they knew what was "best for the slaves." After all, hadn't the masters "rescued" the slaves from a life of savagery? The advocates of government-guaranteed "security" also claim that they know what is best for the people. Many of them argue in this fashion: "After all, haven't the American people conclusively shown that they are incapable of handling the responsibility for their own welfare?"

Many of the slaveholders sincerely believed that the "dumb, ignorant slaves" would starve to death unless their welfare was guaranteed by the masters. And the advocates of compulsory "security" frequently say: "Are you in favor of letting people starve?"

But as proof of the fact that personal responsibility for one's own welfare brings increased material well-being, consider the emancipated slaves. Among them there were old and crippled and sick people. They had no homes, no jobs, and little education. But—most precious of all—the former slaves were responsible for their own welfare. They were free.

They had the privilege of finding their own security.

Now compare the remarkable progress of those former slaves to the lack of progress of the American Indians who were made wards of the government; who were given state-guaranteed "security" instead of freedom with responsibility. In 1862, most American Negroes were slaves. Today they are about as self-supporting and responsible as other American citizens. Meanwhile the Indians as a group have become less self-supporting and more dependent on government aid. It has been claimed that many thousands of Indians will actually die of starvation unless the government feeds them. If this is true, why is it so? . . .

### **How to Destroy a Person**

To those two reports on the results of government-guaranteed "security" I desire to add this thought: If I should want to destroy you, I would try to relieve you of the responsibility for your own welfare and to make you dependent upon me for food, clothing, housing, medical care, and the other necessities of life. After a few years of such dependence you would be helpless, subject to my every command—in effect, a slave.

But in spite of the two cases I have noted above, and many similar ones which can be cited from the long record of history, there are well-intentioned but misinformed persons who still insist that unless government supports its citizens they will be ill-clothed, ill-housed, and ill-fed.

This belief is often expressed by the question: "Would you let them starve?"

Do the people who utter such nonsense understand the meaning of their proposals? In effect they are saying that a free person in a free society cannot support himself; that a free American cannot or will not support his own family; that free Americans will permit their less fortunate neighbors to starve; that our American doctors will not aid a sick person who has no money; that persons with freedom of choice will choose to let homeless people sleep in the streets; that a free people will reject their responsibilities to their fellow men; and that we have renounced Christ's commandments on love and charity.

I refuse to concede that we Americans have sunk so low. If we have, then liberty is dead, and we are taking part in its interment. If we cannot and will not accept the responsibilities of liberty and a voluntary society of free men, then indeed is civilized man at the end of his rope. If I had any thought that this is the case, I would not be speaking to you today. For I believe that we Americans want liberty, and that we are willing and able to pay the price for it.

### **The Price of Liberty**

This price which we must pay is the abolition of *all* special laws for

*all* special groups and interests. Subsidies to businessmen as well as to farmers must stop. Special privileges and preferences for able-bodied veterans must be ended. There must be an end to special laws which exempt labor groups from the consequences of their actions. The special tax privileges for producer and consumer cooperatives must be repealed, or extended to all corporate business. The law which gives tenants special treatment at the expense of home owners must be abolished.

Whatever the sacrifice, our government must live within its income; and the amount of that income which is taken from the people must be drastically reduced. We must abolish all privileges and ask of government the only equality which can possibly exist—equality before the law. In short, we must demand that government confine itself to the primary functions of protecting the life, liberty, and property of the individual—all individuals.


Then each person will be free to do as he pleases so long as he does not interfere with the right of any other person to do as *he* pleases. Then each person will enjoy as much equality and security as it is possible for him to have in a world of admitted inequality and insecurity.

I am aware that this price for liberty may seem high to some people. I know that those groups and persons who now enjoy those special privileges will do all in their power to keep them—and to extend them. Even so, I have faith that the vast majority of the American people want liberty and are willing to accept the personal responsibility which liberty requires. I believe that the only requirement for the return to liberty is an understanding of what it is. I believe that we will understand it and that we will then return to it. I have this faith in my fellow Americans because I believe they will know that upon liberty—*and upon liberty alone*—depends the survival of the species! ☉

“Survival of the Species” is from a two-volume paper-backed collection of Admiral Moreell’s speeches and articles—*The Admiral’s Log*—timely, yet timeless commentaries dedicated to restoring and preserving freedom. The set is available for \$1.00 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

Harry C. Knickerbocker, Jr.

# The Mystery of Inflation



RECENTLY, as I read the Sunday edition of a major metropolitan newspaper, I counted nine columnists whose subject of the day included explanations of inflation. The only clear-cut fact that emerged from this scatter shot of expert opinion was a common failure to deal with the cause of inflation. Rather, they were talking about price increases.

This confuses cause and effect and ignores the fact that some responses to inflation do *not* include price increases—in fact, in some instances, prices actually decline. Reductions in production costs arising out of new technologies can alleviate—and conceal—the fact that inflation is under way. Other

concealments can include producers' reduction in the quality and/or size of their goods or services, reduction of consumer demand with resultant suppression of price increases, and a myriad of other variables and unknowns.

A tool for measuring inflation's effects may never be available and, despite a certain usefulness that such measurements might have, to seek such a tool implies acceptance of inflation as a *natural* phenomenon—something to be measured, harnessed and put to proper use. With recognition that this conception of inflation is fallacious can come the realization that the objective is not to use it, but to eliminate it; not to quantify it, but to be able to detect its presence. Indispensable to the achievement of these objectives is a clear, accurate grasp of the real

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nature of inflation, its origins and its cause.

Inflation consists of enlarging a nation's money supply by the addition of something other than real money, i.e., something other than the money metals, gold and silver. It became possible to make such additions in substantial quantities with the introduction, acceptance and use of paper money.

### Money Substitutes

Paper "money"—and, of substantially less significance, token coins—is the only money that most of us have ever known. It came into use as a *substitute* for real money that had been placed in storage for safekeeping. Originally, bank notes were warehouse receipts for stored gold, and checks were written orders from owners of the gold instructing warehousemen to pay specific amounts of gold to the persons named in the orders.

Confident that one another's receipts were readily redeemable for gold, traders quickly found that transacting business with money substitutes was more convenient than using gold—which would have to be withdrawn from storage by the buyer and then redeposited by the seller. From the outset, most depositors left their gold in storage and paid for purchases with either receipts or checks.

Confidence and convenience not-

withstanding, it was only in the role of substitute that paper currency could gain acceptance among traders to perform the functions of real money. For these paper substitutes had not progressed through the barter process which gives a commodity the capacity to function as money.

Barter, the exchange system characteristic of primitive societies, imposes severe limitations on its participants. Each has to try to match his wants with things wanted by other producers. As in the traditional example, the community's wheat grower might want candles at a time when the candlemaker wanted cloth, the weaver wanted shoes, the cobbler wanted a hat, the hatter wanted beaver skins, the trapper wanted pork, and so on. For any two traders simultaneously to want exactly what each other offered and to be satisfied with the amounts each was to give and get in exchange would be very unlikely. To get the candles he needed, the wheat farmer might have to make a series of less than satisfactory trades to obtain cloth to offer the candlemaker. Meanwhile, the market's other traders would be experiencing the same difficulties.

As such a process—crude, time consuming and inefficient—laboriously plods along, one commodity is likely to emerge as easier to trade than other goods. As it does, it gains an additional value. It is demanded

not only for its commodity value but for its usefulness as a medium of exchange. Gradually, all producers seek to trade their wares for this commodity because, with it, they can trade *directly* for *any* item they want.

As this commodity becomes exchangeable for any good offered in the market, exchange rates are established between it and each of the other goods. These rates are, of course, *prices*, and the ability to express prices is the identifying property of money.

This is the only way that money can *originate*. Any attempt to originate money by arbitrarily designating officially approved certificates (or any other items) as the medium of exchange would fail. Being offered for trade *as a commodity* is the inescapable starting point from which an item must begin enroute to becoming the easiest-to-trade commodity.

Although real money must originate as a commodity, the ability to function as money can be transferred to money substitutes. Transfer of the money function from stored gold to subsidiary coins, checks and deposit receipts represented a refinement, a further streamlining of the exchange process. Unfortunately, inherent in the refinement was an opportunity for misuse with disastrous consequences.

### Fractional Reserves

With the use of substitutes enjoying such strong acceptance among traders, the amount of gold that continued to circulate—to be withdrawn and redeposited—was never more than a fraction of the total in storage. Noticing that the value of receipts presented for redemption consistently amounted to only a fraction of the deposited gold, some warehousemen conceived of an innovative scheme for creating a new business. They wrote receipts for several times as much gold as actually was stored in their vaults. Then with the “extra” receipts, the imaginative warehousemen went into the lending business.

This created claims for several times the amount of gold deposited, but warehousemen expected no problems because the extra receipts were simply on loan and would be returned when borrowers’ notes came due. The lenders failed to realize that the extra receipts in the market would set in motion a process that would make a money crisis inevitable.

The net effect of issuing receipts for amounts of gold several times the actual deposits was tantamount to a sudden, miraculous multiplication of the amount of gold without cost or effort. At first, this would create an illusion of instant, unlimited prosperity. Business would boom, but the illusion would quickly

fade because the purchasing power of gold—its value in relation to other goods and services—would plummet. And, so it was with the flood of “extra” receipts.

Members of the community endured the frustration of rising prices until someone remembered one price that couldn't rise. Each receipt stated a *fixed* amount of gold payable to the bearer on demand.

The ensuing rush to withdraw gold (a frequent necessity which eventually became known as a “run” on the bank) confronted the warehousemen-bankers with an insoluble dilemma: they could not demand payment of borrowers' notes until the future dates specified in the notes. On the other hand, the bankers' warehouse receipts were *demand* “notes.” Receipt holders could demand immediate payment of their gold. Only a fraction of the receipts could be redeemed. The *fractional reserve* banks had no hope of meeting their obligations.

Given the clearly fraudulent nature of lending claims to nonexistent property, it is reasonable to expect that the practice was outlawed. Historically, however, when depositors have tried to protect themselves from the fractional reserve method of theft—when depositors have presented their receipts and demanded their gold—governments have usually granted the banks immunity from their obligations

and from retribution. Eventually, governments and their central banks (Federal Reserve System in the U.S.) assumed control of the issuance of unbacked notes.

Persistently refusing to acknowledge the fallacious nature of fractional reserve banking's basic premise, governments and their experts have derived a succession of modifications each of which has been expected to make the system “work.” Among the most basic of these was the forcible demonetization of gold and the establishment of government sanctioned paper money as the exclusive medium of exchange.

### Outlawing Gold

Gold's function as money was halted in the U.S. in 1933 when Americans were prohibited from owning the money metal and from requiring payment of obligations in gold. Federal Reserve Notes were designated as “legal tender.” By denying the freedom to choose gold in preference to inflatable fractional reserve money, government clearly stood ready to prevent note holders from protecting themselves from inflation's theft.

From the fractional reserve banking point of view, the prohibitions and restrictions have been very successful. By 1975, when Americans' right to own gold had been restored, and by 1977 when it again became legal to specify payment of obliga-

tions in gold, decades of enforced disuse had long since divested gold of its ability to express prices.

Passage of the Gold Clause Bill (P.L. 95-147) in late October, 1977 permits lenders to specify either "legal tender" or gold for repayment of their loans. This gives gold some chance to regain its money function, but in circumstances much different than the barter conditions in which it initially achieved status as the most easily traded commodity.

For gold, remonetization means competing with what was once its substitute but is now the established, accepted medium of exchange. As shaky, unreliable, and disaster-prone as fractional reserve money is, it is still open to question whether or not Americans will be willing to take the trouble to reinstate gold. The decision is likely to be influenced by our perception of the harm that inflation is doing. In this regard, it may be useful to observe certain important distinctions.

Production of gold money requires an investment, an input of actual, real, existent resources. The resultant money is equally real and constitutes value *added to* existing values. To be sure, as with any commodity, overproduction of the money metal could diminish its value vis-a-vis other goods and services; but the consequent losses to the producer would quickly terminate or curtail production. Owners of gold

would have no fear of seeing the value—the purchasing power—of their medium of exchange swept away in a limitless flood of gold.

In sharp contrast, production of fractional reserve money requires little more than making a book-keeping entry crediting a borrower with an agreed upon sum and issuing a deposit receipt in this amount. Where in one instant there had been nothing—literally—in the next instant there is "money." Whereas production of gold money added value to the economy, money created out of thin air acquires its value by *taking* it from existing values without giving anything in exchange.

Today, all production of additional money is inflation. The "Fed" (Federal Reserve) has several ways of increasing the money stock, each of which creates money out of thin air. When the powers of government determine that more money should be spent than can be collected in taxes (more than taxpayers will tolerate), government simply borrows non-existent money from the Fed.

As it is spent, the new money flows into deposits in commercial banks. There it becomes the fractional reserve for a much larger amount of money created out of nothingness by virtually the same loan scheme devised by the original warehousemen-bankers.

That, in brief, is inflation. ⊕





# World in the Grip of an Idea

Clarence B. Carson

## 19. The United States: The Concentration of Power

POLITICS, it has been said, is the art of compromise. But compromise is not the object of politics; it is only a method. The end of politics is to gain and maintain control over the instruments of power over people. Politics is, then, the art of the struggle for power, any kind of power, but above all the power residing in government. There are other ways of gaining political power, of course. The most common way, historically, has been to inherit it. Another way

has been by conquest. The *coup d'etat* has also been used, but this usually involves some combination of the methods mentioned earlier. But in modern day democracies, the approved way of gaining and maintaining power is by politics. That is certainly the case in the United States.

The primary task of those who wished to introduce socialism in the United States was to get control of political power. There were a considerable variety of such socialists in the latter part of the nineteenth century. There were anarchists, syndicalists, Marxists, nationalists, unionists, and other sorts of social-

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

ists. They made what political splash they made, at the outset, with inflationist schemes of one sort or another. In the early twentieth century, the Socialist Party, under the leadership of Eugene Debs, emerged and gained considerable following as a minor party until the end of World War I. It continued to exist thereafter but ceased to grow. Indeed, it went into a decline from which it has never recovered. The Communist Party, under the leadership of William Z. Foster and others, had even less political success.

But even before the 1920's many of those who were inclined toward socialism had concluded that they could not attain power in America by professing to be socialists. Most Americans simply would not buy the package of socialism when it was wrapped in that way. The best way to move toward socialism would be by way of the established political parties and by gaining footholds in governmental and other institutions. There was no need to call particular programs socialistic and to describe their adoption as a movement toward socialism. In fact, it would be counterproductive to do so. Much better to advance them as cures for particular problems and as made necessary by changing conditions. The Fabians in England had pointed the way, and the American socialists modified their tactics to fit their own conditions.

## **A Surreptitious Movement**

The movement toward socialism in the United States has been surreptitious, even sneaky, and infiltrative in character. Even so, it has not been directed by some master plan conceived by some planner, or planners. Nor has it been advanced, by and large, by a conspiracy. It would be easier to understand if there were a master plan and a well-organized conspiracy. But the evidence does not warrant the drawing of any such conclusion. A conspiracy is, after all, an agreement between two or more people to do something illegal. Whereas, the distinctive feature of gradualist socialism is that it will achieve its goals legally. (Communists have, of course, often engaged in illegal acts, been under the control of foreign powers, and been parts of conspiracies. However, communism is an adjacent movement to the main thrust toward socialism in America and has never been in control of it.)

Moreover, the movement toward socialism is not done by a plan in the United States. It is not a plan but a method. There is an objective: It is to gain control of political power and transform America. The method is to employ those means which, at any given time, give the greatest promise of producing the desired results. This method is called pragmatism, and its practitioners pride themselves on their lack of

commitment to any overall plan or strategy. Pragmatists feel their way toward their objective, thrusting through at weak spots and turning aside when resistance becomes so great as to threaten failure.

Though the goal of the gradualist socialist movement in America is power—political power—, it is not, as such, a political movement. It is, at bottom, an intellectual movement, a movement aimed at controlling what men think, or at the least establishing a subtle authority over what men say. Those who persist in thinking of it as a political movement will ever have difficulty in grasping how it could maintain a coherent direction without a master plan and planners. Once it is understood as a set of ideas, an ideology, this difficulty disappears. The coherent direction derives from the ideology.

Anyone who is to any extent under the sway of the ideology can perceive which proposals for the use of government power are most in keeping with it. Those who do not subscribe to the ideology are disciplined by denying them the advantages that stem from adherence to the prevailing ideology. It requires no conspiracy to carry out the punishment or ostracism; it does require the concurrence of true believers in the ideology. In addition to the concurrence of true believers, the thrust toward socialism is ac-

complished in America by the desire of many to be in keeping with what they believe to be intellectual fashion or their fear of flouting it.

A great deal more could be said on this head, but only so much need be said as will put at naught the notion that what follows is an account of action by an organized conspiracy. Viewed in retrospect, the thrust toward socialism in America—or, for that matter, in the world—may appear to follow a pattern, a pattern such as events have when they are planned and directed by some body of men. This pattern arises from two sources: one, there is a direction, of sorts, to the course of development; two, the historian organizes them for the telling so that the events have a greater coherence than they had in reality. At any rate, what follows is an effort to explain how the thrust toward socialism gained momentum and power over the American people.

### **Powers Dispersed**

The United States government was deliberately designed to thwart the efforts of any one man or group of men from gaining any continuing control over it. To that end, the powers of the federal government were separated into three branches, as were those of the states. Further, the powers of government were dispersed by granting certain powers to the general government and reserv-

ing others to the states. In addition, some powers have been specifically denied to the general government and others to the states. Some of the other safeguards against the concentration of power were: staggering the terms of Senators so that only one-third of the Senate is to be elected at any one time, having Congressmen elected for two-year terms and the President for four, and providing for an appointed judiciary. The states have generally dispersed their powers by having them exercised by municipalities, counties, and other local governments. All these arrangements tended both to prevent the concentration of power and its use by any faction for its own purposes.

Anyone conversant with developments in government in the twentieth century knows that these obstacles to concentrating power and its regular use by a faction—a faction under the sway of the idea that has the world in its grip—have been largely overcome or circumvented. How it has come about does, however, need to be explained. It has not come about, not to any significant extent, by amendments to the United States Constitution. The separation of powers among the branches still formally exists. The reserve of powers to the states has been only slightly altered by amendment. The constitutional protections of life, liberty, and property

can still be found stated in the cadences of eighteenth-century rhetoric. But much of the substance has been drained away while the forms still stand.

In the broadest terms, here is what has happened. Power in the United States is today concentrated where it is least subject to popular control and most amenable to manipulation by intellectuals and intellectual fashion. More specifically, it is concentrated in the executive branch, the courts, and the bureaucracy. Preceding and accompanying this has been the concentration of power in the federal government. The federal government is the most amenable of governments to ideological influence brought to bear by the press, national magazines, television, book publishers, and other media of communication. In a similar fashion, the executive branch, the courts, and the bureaucracy are readily swayed by these ideological influences.

### **Lack of Popular Control Over Federal Government**

Vast political power is exercised today by those in the federal government over whom there is little or no popular control. This state of affairs came about gradually over the better part of a century. Indeed, in the case of the Federal courts the potential was there from the beginning. Federal judges were always

appointed by the President subject to the approval of the Senate. Their tenure in office is for life or during good behavior. But the "good behavior" requirement early became largely a dead letter because of the failure of Congress to persist with impeachments. Thus, the courts have ever had but a tangential relation to popular control.

This was by design, of course. The idea was that the judiciary should be independent, independent of politics so as to make their determinations according to law. This was a noble concept and was reasonably workable so long as judges believed themselves to be bound by the Constitution, by precedent, and by reason. But a subtle change began to occur in the latter part of the nineteenth century. Legal realism, as it is sometimes called, began to replace the concept of fixed and immutable laws. What was the law began to be thought of as something that was changing, relative, and subject to continual mutation. This set the stage for a judiciary that was not only independent of politics but independent also of the received law. To an amazing extent, the Supreme Court became a law unto itself, upsetting and ignoring precedent and ruling by pronouncements which were considered binding upon the lower courts.

Popular control over the bureaucracy declined as Civil Service reform

made headway. The idea of having a body of civil servants who would be professionals free from the shifting political tides had broad appeal in the latter part of the nineteenth century. It got much impetus from the fact that President James A. Garfield was assassinated by a disappointed job seeker. Thereafter, a tenured civil service began to be created. Over the years, more and more employees came under it.

### **Tenured Civil Service**

Having a tenured civil service did not matter so much as long as the sway and activities of the federal government were limited. But in the twentieth century, as the federal government intervened in more and more matters and began to touch and control the lives of Americans in an ever greater variety of ways, the effect of having an independent and tenured civil service became something else again. So far as the bureaucracy was the government, they were controlling the lives of people but were themselves subject to very little popular (political?) control.

Another significant development in cutting government loose from popular control and concentrating power was in the authorization of independent commissions. The Interstate Commerce Commission was the first of these bodies. It was created in 1887 and given limited

powers over the railroads but has since had its powers greatly augmented and extended over other forms of transportation. It has since been joined by a goodly number of other such organizations, among them the Federal Reserve Board, the Federal Power Commission, the Civil Aeronautics Board, and others.

Only a tenuous control over these organizations is maintained by the elective branches of the government. They are authorized by Congress, their members approved by the Senate after nomination by the President, and after that they proceed more or less on their own. Generally, they combine in single bodies powers of government that were separated by the United States Constitution. That is, they legislate—create a body of administrative law by their decisions; execute—carry into effect their rulings; and adjudicate—hold hearings and make decisions which often have the effect of law.

Not only do these independent commissions concentrate powers within the federal government but they also have tended to claim large new powers for the federal government. By way of them, the federal government exercises extensive powers over transportation, electricity, money and banking, basic fuels, and labor relations. Nowadays, by way of their sway over energy and the environment, the federal gov-

ernment reaches through to the most basic undertakings of Americans.

### **Presidential Power**

The growth of power vested in a bureaucracy was long paralleled by and even was an augmentation of presidential power. Presidential power began to dominate the other branches during the administrations of Theodore Roosevelt and Woodrow Wilson. It became pre-eminent during the three terms plus a fraction of another of Franklin D. Roosevelt. These Presidents proceeded to dominate the legislative branches by setting forth programs—described respectively as the Square Deal, New Freedom, and New Deal—which they undertook to push through Congress. Once these programs were enacted into legislation, the executive branch was usually given many new powers and more extensive ones.

After the death of Franklin Roosevelt, three Democratic Presidents—Truman, Kennedy, and Johnson—attempted to advance similar broad programs under the rubrics of the Fair Deal, the New Frontier, and the Great Society. Truman, however, faced increasing opposition to his programs, and Kennedy was assassinated before he managed to translate much of his program into legislation. (In fact, until the media transformed Ken-

nedly into a folk hero following his assassination, he had made little mark on government.) In the wake of Kennedy's assassination, President Johnson was able to get a multitude of laws passed, though there have been no prophets to proclaim that the Great Society emerged from it. But before he had served out the term to which he was elected on his own Johnson had become so unpopular, at least among radical elements, that he grew fearful of making public appearances and declined to run again.

It is now possible to conclude that following World War II the tide began to turn against presidential power. Democratic Presidents, the main architects of the surge of presidential power, were repeatedly drawn into actions which placed them at odds with some of the most vocal of their constituents in the intellectual community. As Woodrow Wilson had written long before he came to the presidency, the major constitutional opening for the increase of presidential power is in foreign affairs. Nor can it be doubted that Presidents reached the peak of their hold on power during wars.

After World War II, the United States was confronted with expansive communist powers, became embroiled in a Cold War with them, and there were two hot wars, Korea and Vietnam. Anti-communism, however, was not popular with

many Democrats, and particularly not with intellectuals. Moreover, those Americans who were anti-communists were hardly inclined to support Presidents who conducted lukewarm and increasingly limited wars in Korea and Vietnam. In consequence, Presidents were unable to rally many members of their own party behind them and alienated much of the rest of the populace by their conduct of the wars.

There have been many indications that the tide has begun to run against presidential power. There was, of course, a Constitutional amendment, the 22nd, ratified in 1951, limiting Presidents to two terms. There have been congressional efforts to restrain Presidents in foreign engagements. There were the weakened positions of both Truman and Johnson in their last years as President. There was the forced resignation of Vice-President Agnew and the even more dramatic resignation of President Nixon under the threat of imminent impeachment. The attacks on the FBI and CIA, and subsequent limitations placed on them, have had the effect of limiting the President. Moreover, President Carter was the first Democrat elected to the office in the twentieth century who did not run on the basis of some program name such as New Deal, Fair Deal, or the like. Nor has Carter thus far succeeded in getting much of his

proposed legislation through Congress.

None of this should be interpreted to mean that there has been any lessening in the trend toward concentration of power in the general government. On the contrary, that has gone on at an accelerated pace even as presidential power was being restrained. While Johnson was being made virtually impotent by critics of the Vietnamese War, the Department of Health, Education and Welfare was expanding its powers into more and more fields. Even as Nixon was approaching disgrace, the Environmental Protection Agency and OSHA were extending their reach into every nook and cranny of America. Vast grants made from the federal government to states and cities during Nixon's presidency concentrated decision-making power in Washington and continued the process of making state and local governments administrative arms of the federal government.

Rather, the relative decline in presidential power should be interpreted as a further decrease in popular control over this vast government with its concentration of power. The executive branch, i.e., the bureaucracy, increases in power as the powers of the Chief Executive decline. The Congress, historically the branch over which there has been the most direct popular control,

does not, and cannot, exercise effective control over the bureaucracy and the independent commissions. Congress has failed for several decades now to restrain the judiciary, though there are ways it could do so. Presidents exercise only the most tenuous control over the bureaucracy.

### **How Bureaucracy Functions**

The determinative role of bureaucracy is well described in this story which appeared in the *Atlanta Constitution*, March 26, 1978:

Almost nobody has heard of Joe Sherman, a \$47,500-a-year federal civil servant. He commutes quietly to Washington every morning from a modest brick home in suburban Alexandria, Va. His work is seldom noticed by the press or the public.

But Joe Sherman may have an enormous impact on the everyday lives of Americans for years, even generations, to come. . . .

Sherman and his staff at the Department of Housing and Urban Development are devising energy standards for building construction that are likely to alter the appearance, shape, or inner workings of every office building, hospital, school, factory, and private home in the United States after February 1981.

The process is much like that by which thousands of other small but important decisions are made throughout the government. The decisions influence the type of food that people eat, the clothes they wear, the kinds of loans they get, the construction of the cars they drive.



The process is usually followed very closely by the specialists with a financial and a professional stake, but the public mostly learns little until it comes time to pay the bill, use the product and learn to live—and maybe suffer—with the results. . . .

This is the story of how one law is being carried out. It began in 1976 when Congress passed the Energy Conservation Act. A little-noticed provision, heavily influenced by lobbyists for architects, ordered the administration to draw up "performance standards for new residential and commercial buildings which are designed to achieve the maximum practical improvements in energy efficiency and increases in the uses of nondepletable sources of energy."

Congress often leaves laws vague like that and allows the bureaucracy to work out the details. It is people like Joe Sherman who must figure out just what Congress meant by "maximum practical."

The standards, which are expected to be incorporated into building codes all over the country, will for the first time require that all buildings be designed to meet an "energy budget"—that is, they should be built to operate without using more than a specific amount of energy per square foot of space, depending on the purpose of the building and the climate where it is situated.

The vast accretion of governmental power involved in this should not go unnoticed, either.

The Department of Health, Education and Welfare may be most correctly conceived as a sort of inde-

pendent kingdom or fiefdom set up within the bounds of the United States and being charged with or assuming authority over some of the most sensitive areas of American life. When it was founded during Eisenhower's presidency it brought together a hodge-podge of bureaus which theretofore had modest pretensions. Its activities and sway burgeoned with the spurt of legislation during the first two years of the Johnson administration. Congress and Presidents might have conducted diplomatic relations with it during most of its lifetime if they could have discovered who, if anyone, was in charge of it.

If the bureaucracy, the independent commissions, and the courts—the organs of the concentrated power of the federal government—are not under the effective control of the elected representatives of the American people, who does control them? One way to answer the question is to say that nobody does. And that answer is correct so far as it goes. The President does have some little residual power over them; the Congress does have potential power; and pressure groups do sometimes modify their actions. But nobody controls or directs them in the ordinary conduct of their doings. Yet it would be incorrect to suppose that each bureaucrat or commissioner or judge simply decides his course of action, letting his conscience be his

guide, and doing as he will. It may sometimes happen, but it is not characteristic.

As indicated earlier, the bureaucracy, the commissions, and the courts are ruled, by and large, by intellectual fashion. It is not usually called fashion; more commonly it has been thought of as the *zeitgeist*, spirit of the times, intellectual milieu, or reigning ideology. These latter terms and phrases may be more precise or comprehensive, but "fashion" captures better the way in which the ideas work on individuals and groups.

### The Ebb and Flow of Fashions

Intellectual fashion changes even as do fashions in women's clothes. One year it is environmentalism, another consumerism, another the eradication of poverty, another the menace of big business, another investigative journalism aimed at purifying politics, and so on. These intellectual fashions appear, decline, virtually disappear, and recur much as do fashions in men's jackets, say. Just as padded shoulders in jackets become fashionable, then not, then again, so do fashions in prevailing ideas; the abolition of poverty was prominent in the 1890's, 1930's, and 1960's. The purification of politics was a major theme in the early twentieth century and then again in the 1970's.

Intellectual fashion is determined

in much the same manner as fashions in clothes. Just as there are leading clothes designers, so there are leaders in setting forth what becomes intellectual fashion. For intellectual fashion, there have been such thinkers as John Kenneth Galbraith, Ralph Nader, Michael Harrington, and the like. Just as among clothes designers, there is competition for whose notions will prevail among intellectuals. And just as in clothes design, the more radical ideas are for the *Haute Coterie*. Beneath these, those who conform to the fashion do so in less drastic and, hence, more popular formulations.

Underlying and supporting this shifting intellectual fashion is an ideology which does not change. Ideology informs the continuing thrust to change, providing its direction and substance. What is in fashion at the moment is the leading wedge of the drive toward transformation. American intellectuals and politicians generally pride themselves on their pragmatism, but they are pragmatic only in changing emphases with the fashions.

Control over American government and increasingly over the lives of Americans is exercised by intellectual fashion and the underlying ideology. It is thus that the United States has been brought under the sway of the idea that has the world in its grip. This was made possible by the concentration of power in the

central government and its further concentration in those areas of government most remote from popular control. More and more people vote, but they have less and less control over the government and their own affairs and lives.

### **The Concentration of Power**

The greater the concentration of power the more readily can it be manipulated by intellectual fashion under the subtle control of ideology. It is easier to influence one man than several, to influence the President, say, than the nine justices of the Supreme Court. In like manner, the Supreme Court may be more readily influenced than can 100 Senators, and the Senate more readily than the House of Representatives. It should be equally clear that one general government can be swayed more easily than can fifty state governments.

Influence may not be the right word; what often develops may be more correctly understood as pressure. Leaders of intellectual fashion exert pressure on government, exert pressure until they get action quite often. Some examples may make the process clearer. In the 1960's, Ralph Nader wrote a book entitled *Unsafe at Any Speed*. He charged that American auto makers were turning out unsafe cars, failing to incorporate features that would save lives, and thus making auto travel pre-

carious. In consequence of his charges a campaign to change all this emerged, laws were passed, and in the course of time various safety devices became mandatory for all automobiles. The impetus from this and similar works provoked two much broader campaigns: consumerism in general and safety requirements by governments in general. Hence, a Federal Office of Consumer Affairs was authorized, and most states followed suit with their own offices or bureaus. Also, the federal government set up an Occupational Safety and Health Administration (OSHA) which began to promulgate thousands of rules and restrictions affecting the safety of workers. As for the governmental intrusion into the automobile business, a newspaper reports that more vehicles were recalled because of defects in 1977 than were sold in that year.

Some years back, the late Rachel Carson came out with a book entitled *Silent Spring*. This was the intellectual opening for the environmentalist campaign which got underway in the late 1960's. Environmentalism swiftly became the fashionable cause, horror stories spread of how we were destroying the environment with chemicals, threatening the oxygen supply, making the air poisonous to breathe, the water hazardous to drink, and making our surroundings desolate.

Protective legislation was, of course, forthcoming, and a new branch of the bureaucracy was created to see to the well-being of the environment.

Where does this pressure come from? It comes from those who deal in one way or another with ideas, with opinion making and the spread of ideas, those in the grip of the idea of transforming man and his universe. They are mostly intellectuals, or have intellectual pretensions: they are professors, students, teachers in general, journalists, writers, preachers, publicists, and what have you. How do they exert the pressure? They do so by the holding of key positions in the media of communication and by their success in purveying the approved attitudes. Mere Presidents must be continually wary of them, lest a thoughtless word will ruin their chances for re-election. Generals who voice unapproved attitudes are likely to be hounded out of the service, denied promotions, or buried in some administrative office in the Pentagon. Judges who hope for promotion must take care that they have never harbored opinions, or at least spoken or acted upon them, which will bring them to the unfavorable attention of media spokesmen.

There are numerous examples of what horrendous things can happen to those who provoke the wrath of

media spokesmen, but no more dramatic one has yet occurred than that of the resignation of President Nixon in the wake of Watergate charges and revelations.

Ordinarily, however, the power of intellectual fashion directed by those under the sway of the idea that has the world in its grip is not demonstrated by the destruction of men in high places. It evinces itself, rather, in the day to day pressures on politicians and others to take approved positions and advance their enactments. It makes certain courses of action unthinkable and those that are approved largely unquestioned. It is a subtle and effective tyranny over thought. The concentrated power of government is wielded by those who dare not oppose this intellectual fashion. There are enough victims strewn along the wayside to serve as cautionary examples for those who consider any other course.

The power of government is wielded both directly and indirectly. We are all aware, more or less, of how control over our lives is wielded directly. It may be instructive, then, to examine into one of the prominent indirect ways government wields power. Ⓜ

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Next: 20. *The United States: Business as an Instrument of Political Power.*

# Ideas that Serve



ALEXANDER TURNEY STEWART

ONE FEATURE of the free market which is seldom completely appreciated is the close relationship between innovation and the meeting of consumers' needs. In a market environment, the entrepreneur must be both a man of ideas, who has vision to foresee ways of producing goods and services more effectively, and a man of action, who can implement these ideas.

Many people believe that consumers are at the mercy of producers, who have a captive audience to buy whatever they offer. Individuals sharing this view do not realize that the businessman's innovations must cater to the desires of consumers, or he will not prosper.

The market encourages innova-

tion, yet it rewards only those who meet the demands of consumers. When the entrepreneur loses the creative spark or when he ignores the wishes of his customers, he risks his business life. Where entry in the market is free, there will always be competitors willing to move ahead and provide for demands.

An excellent case study of this principle is the business empire built by Alexander Turney Stewart during the comparatively free market of nineteenth-century America. Today, Stewart's name is unknown, but in the early and mid-1800s, he pioneered the development of what became the department store.

Stewart was born in 1803, in County Antrim, in the north of Ireland. When his father died soon after his birth, young Alexander

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Mr. Nelms is a professional librarian in Virginia.

was placed in the care of his maternal grandfather. A bright, intelligent youth, he was at first pledged to the ministry.

While still in his teens, Stewart visited New York and soon decided to enter the business world. Although he had no experience as a merchant, he was captivated by the hustle and bustle of the New York business world. Deciding to import and sell Irish lace, he opened his first store in the summer of 1823. The shop was on Broadway and consisted of a twelve-by-thirty-foot room filled with the wares he planned to sell.

From the beginning, Stewart demonstrated the creative genius and hard work that would prove to be his trademarks. He opened his store early and closed it late, he cultivated personal politeness toward customers, and he carried quality merchandise.<sup>1</sup> His caniness in business encouraged him to open another store. When he outgrew it, still a larger building was acquired, so that by 1850, he had the largest retail business in the city.

### **"Ten Per Cent and No Lies"**

Stewart's success and the growth of his concerns were a direct result of his hard work and innovative efforts. In a day when most merchants believed in marking up prices very high on each item, Stewart undersold his competitors and reaped the

benefits of selling large quantities at a small margin of profit.

His slogan of "ten per cent and no lies" shows the connection between his mark-up on merchandise and the manner in which he insisted his products be represented to the public. He abhorred misrepresentation to customers and insisted that his salesmen not make false claims for the material they sold.<sup>2</sup> This practice was counter to the conventional business wisdom of the day, but it won Stewart a reputation for honesty and reliability which he converted into new sales.

Another feature of Stewart's business was the establishment of uniform pricing. Most of his competition arrived at prices for merchandise by haggling with customers. To simplify his operations, he established uniform prices, which applied to all customers. The success of this policy was huge, and eventually his competitors were forced to follow suit.<sup>3</sup>

The variety of material and services provided in Stewart's store also added to his sales. His innovation of a single complete building, where shoppers were free to roam at will and view the merchandise, greatly simplified business. The atmosphere was pleasant and convenient. In addition to a wider variety of merchandise than was available elsewhere, Stewart's offered several fringe benefits. These included writ-

ing desks for customers, a library, a delivery service, and toilet facilities for women. In the mid-1800s, even the latter convenience was considered innovative in the retail trade.

### **Customer Services**

Another important feature of the store was the unrestricted right of customers to enter, inspect and decide on purchases without interference by company personnel. Today such action is taken for granted, but at the time, patrons of retail establishments were seldom left unattended to select material.<sup>4</sup>

Very early in his career, Stewart adopted the practice of allowing merchandise returns for exchange or cash refunds. In general this was not an accepted practice of the period. Most merchants viewed each sale as final. Stewart's policy allowed for many satisfied customers to remain in that category by being allowed to return unwanted items.<sup>5</sup>

Sales were another feature of the Stewart business enterprise. He held a variety of them, ranging from fire sales to remnant sales. Needless to say, these brought great benefit to his many patrons and equal discomfort to his competitors, who did not follow suit.<sup>6</sup>

The success of the Stewart enterprise is considerable, even by today's inflated standards. His business grew to the point that by the 1860s he had 2,000 people employed in his

enterprises. By 1865, his total retail sales were \$8,000,000 per year. This grew to more than \$12,000,000 by 1873. By comparison, R. H. Macy's store did not reach \$1,000,000 annual volume until 1870, and it was not until 1896 that John Wanamaker became the second American drygoods merchant to sell \$10,000,000 worth of retail items in a single year.

### **Unworthy Successors**

Other examples of Stewart's business success can be seen from the records showing that 10 per cent of all imports at the Port of New York during the 1860s came to him. He was the greatest single taxpayer in the United States, and he owned more real estate than anyone in New York, except the Astors.<sup>7</sup>

At his death in 1876, the Stewart estate was said to be worth \$60,000,000, which included numerous factories in Europe. The Stewart empire was built on hard work and innovative thinking which met the demands of consumers. Unfortunately, the executor of his estate, Henry Hilton, did not demonstrate the same characteristics. Hilton failed to keep pace with the business trends of the time and allowed personal prejudice to affect his decisions.

An example was Hilton's closing of the Grand Union Hotel in Saratoga, New York to Jews. This

action, taken just two months after Stewart's death, resulted in much bad publicity for the business. In addition, over a hundred prominent merchants withdrew their wholesale trade from the Stewart drygoods store.<sup>8</sup>

Where Stewart was able to stay one step ahead of his competitors and correctly anticipate customers' demands, Hilton was able to do neither. Through mismanagement and a lack of response to customers' needs, Hilton reduced the Stewart estate to a shambles. The large retail store was sold and the fortune dissipated in less than twenty-five years.<sup>9</sup>

The story of the Stewart empire illustrates how creative genius and hard work in the free market environment can lead to success and benefit both consumers and merchants. Stewart's enterprise was a model of retailing in its time. But the Stewart story also illustrates how the market treats lack of creativity and a failure to accurately meet consumers' needs. Stewart's successor showed neither the willingness nor the ability to meet the competition of the department store

movement. As a result, Stewart's business empire is unknown today.

This case should serve as an example to anyone who charges that entrepreneurs in a free market need not worry about meeting the desires of customers. It illustrates the rewards that can occur when ingenuity is combined with hard work, and the problems that result when these two assets are missing. ☉

### —FOOTNOTES—

<sup>1</sup>"Alexander Turney Stewart" in *Dictionary of American Biography*, Edited by Dumas Malone, Volume IX, part 2 (New York, 1958), pp. 3-4; Edwin P. Hoyt, *The Idea Men* (New York, 1966), pp. 20-24.

<sup>2</sup>"Alexander T. Stewart," *Fortune* (January, 1975), p. 70; Harry E. Resseguie, "Alexander Turney Stewart and the Development of the Department Store, 1823-1876," *Business History Review*, Vol. 39 (Autumn, 1965), pp. 307-309.

<sup>3</sup>"Alexander T. Stewart," *Fortune*, p. 70; Resseguie, "Alexander Turney Stewart," pp. 309-310.

<sup>4</sup>*Ibid.*, pp. 310-312, 321.

<sup>5</sup>*Ibid.*, pp. 311-312.

<sup>6</sup>Hoyt, *The Idea Men*, pp. 30-31.

<sup>7</sup>*Ibid.*, p. 45.

<sup>8</sup>*Ibid.*, pp. 46-47.

<sup>9</sup>*Ibid.*, pp. 48-49.

IDEAS ON

**Isaac Newton**



LIBERTY

If I have ever made any valuable discoveries, it has been owing more to patient attention than to any other talent.



# THE LAW ALSO IS POLLUTED

SOMEONE once suggested that the ultimate test of character would be to ask yourself what crimes, if any, you would commit if you could be absolutely certain that you would not be caught or even suspected. Obviously there are many people who, assured of such immunity, would take advantage of the situation—people who would otherwise be law-abiding citizens. A few might choose to harm or even kill someone they particularly dislike. Some would perhaps destroy the property of another. There are many who would be inclined to steal an enormous sum of money in order to insure a comfortable or even luxurious life style. Some might limit their greed to stealing one particular item or art object they have always coveted.

The possibilities are infinite but one thing is shared in common by all who would succumb to this gift of legal license by either stealing or otherwise infringing on the rights of someone else. They generally stay within the law not because they live by a rational moral code but simply because they are deterred from crime by fear of apprehension and punishment. They are the amoral pragmatists among us and their number is legion.

Obviously, the reality of the situation makes it unlikely that anyone would ever really be confronted with this test of character. It is nonetheless intriguing to speculate on this hypothetical opportunity to commit a crime and get away with it, each of us calling upon his values and moral code in arriving at a decision. The first time I considered it I quickly concluded that I was guided by moral values and

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Mr. Hood is a businessman in Meredith, New Hampshire.

respect for the rights of others; therefore, detection and punishment were not the primary deterrent for me. Later it occurred to me that I was not being asked if I would infringe on the rights of another. The question is: What "crimes" would I commit?

A crime is: "An act or omission forbidden by law and punishable upon conviction." Hence, there is not a single human action or thought which could not conceivably be a "crime." The most moral of human activity has only to be declared illegal by either a legislative body or a dictator and we have the potential for more crime. Therefore, crime becomes relative to the time and place in which we find ourselves. Had I lived as a serf in feudal Europe, there were probably a great many "crimes" I would have committed if assured immunity. Had I the misfortune to be born in contemporary Russia or any one of the many dictatorships, I would surely be a "criminal" under such a system, especially if I were certain I could get away with it.

### **Two Kinds of Law**

We find ourselves today in a constitutional republic. Ours is a government by law rather than by dictatorial whim. There was a time when ours was largely a government by moral law and therein lies the perplexing situation which must

be considered when applying our test of character today. I expect that there are literally hundreds of laws which I would prefer breaking if guaranteed immunity, "crimes" no one of which infringes on a single right of a single other individual.

If I decided to alter or build an addition to my home, I might proceed without so much as a by-your-leave from the local planning board, zoning board, building inspector, electrical inspector, plumbing inspector, or other official. In fact, I probably wouldn't even refer to local building codes and such. If I made my living in one of the many licensed trades or professions, I would probably choose not to renew a license which has little if any bearing on my professional ability.

If I were an employer I might choose to hire someone for less than the minimum wage if the prospective employee were agreeable. Or, I might even allow an employee to work hours in excess of labor law standards. I probably would have a great deal more time to devote to constructive and creative efforts than my competitors because I might devote no time at all to bureaucratic paper work. I might even hire a 17-year-old high school student to mow the lawn with a power mower or clear the parking lot with a snow blower, in flagrant violation of a law that frequently is overlooked.

If I were in the trucking business I would on occasion consider transporting goods beyond the borders restricted to me by state and federal franchise limitations and I might even try to snatch a little business from my competitors by offering lower prices and better service.

If I were a farmer in one of the many restricted areas of agriculture, I might plant whatever I wanted on as many acres as I could plow, sow, maintain, and reap, and I would sell the harvest for the best price I could get. All of this with unconscionable disregard for laws intended to "protect the public interest" but which in reality prevent my serving the public.

### **The Tax Dilemma**

There are many taxes which I would certainly prefer not to pay, my premise being that property earned by honest effort cannot rightfully be expropriated by government however lofty the intended use. I must admit that I pay my taxes only because I fear the consequences of not doing so. I am not in the least motivated by a philanthropic love of Washington.

Thus, as moral individuals, if we are to test our character by this hypothesis in today's society we inevitably are confronted with a significant dilemma. If we are to preserve our semi-free system in the hope that right ultimately will pre-

vail, then we must uphold the law. It is not our option as individuals to pick and choose the law which suits us, although we do obey many of them only through intimidation rather than in conformity to our personal moral code. That we are forced to obey many laws which, in fact, violate moral law may lead to the root of our dilemma: the pollution of our law.

There is moral law, the purpose of which is to protect the life, liberty, and property of every individual with complete equality. And there is immoral law which seeks only to expropriate the rights and property of some for the supposed benefit of others. One is no less "the law" than the other but clearly there is an enormous difference in their treatment of the rights of individuals. One secures these rights; the other expropriates them. One is justice; the other injustice.

Moral law (justice) is simply the codification of the natural right of self-defense—the right of each individual to protect his own life, liberty, and property. "It is the substitution of a common force (government) for individual forces," according to Frederic Bastiat. "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."

Bastiat applied this simple test to distinguish one type of law from the other: "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. . . . If such a law is not abolished immediately, it will spread, multiply, and develop into a system." Prophetic words from well over a century ago, for we surely have developed such a system.

### **Justice or Plunder?**

The vast majority of people make no attempt to distinguish between justice and injustice within the law. It is a vast gray area of an obscure process whereby the severest injustice acquires an aura of respect simply by its enactment into law. We are all, including the most undiscerning among us, the victims of this pollution of our law. When the law ceases to be an instrument of justice it inevitably becomes less respected. It should come as no surprise that the laws of the United States are held in such low esteem today; not just immoral law, but all law, since most persons fail to differentiate.

Bastiat warned us that, "It is impossible to introduce into society a greater change and a greater evil than this: the conversion of the law

into an instrument of plunder. What are the consequences of such a perversion? . . . it erases from everyone's conscience the distinction between justice and injustice. No society can exist unless the laws are respected to a certain degree. The safest way to make laws respected is to make them respectable. When law and morality contradict each other, the citizen has the cruel alternative of either losing his moral sense or losing his respect for the law."

To respect the law today is to subjugate moral values to the irrational whims of legislative bodies. To respect our natural right to life, liberty and property and to live by that moral standard is to disrespect contemporary law. This poses a difficult, if not impossible, choice—a "cruel alternative," as Bastiat phrased it. But choose, we must. We can pursue our present course of law pollution with the result that we ultimately will be forced to pick and choose the laws we will obey; the course which inevitably leads to anarchy and dictatorship. Or, we could begin to devote as much effort and energy to cleaning up the law as we have devoted to cleaning our rivers and air. We could re-establish a government of morally pure law with the result that the law would be upheld largely by moral conviction rather than at the point of a gun. ⊕

# A MIDDLE WAY?

JEAN-FRANCOIS REVEL, one of France's sharpest critics of Communism, including "Euro-Communism," thinks of himself as a democratic socialist. In a tantalizing book, *The Totalitarian Temptation*, he opposes what he calls the "unofficial Stalinists" and the "pidgin Marxists" from a middle ground of "pluralist democracy" without ever quite realizing the connection between the property right and pluralism. He is willing to take capitalism in preference to the collectivist state, and he is not cowed when Communists call him "reactionary," but in fighting the "excesses" that crop up in the average socialist's critique of capitalism he betrays a yearning for something that he is unable to put into words.

The best he can do is to say that "socialism," by which he means some undefined ideal thing, "can only take root in capitalism and develop by outgrowing—not destroying—capitalist civilization, while preserving its two cornerstones: the capacity to produce, and political, individual and cultural freedoms."

**The Totalitarian Temptation**

by Jean-Francois Revel. Published by Doubleday & Co., 245 Park Avenue, New York, N.Y. 10017, \$8.95

Such a sentence I find very puzzling. Isn't Revel trying to tell us that he is a voluntarist who wants to build a cooperative world on a base

of private property and free association? The word "socialism," with the connotations it has gathered, hardly covers Revel's desire.

Oddly enough, Revel's "socialism" seems to be very much the French equivalent of the "neo-conservatism" that Irving Kristol accepts in his witty *Two Cheers for Capitalism*. Unlike his French brother, Kristol disdains to use the word "socialism," saying that the socialist doctrine is dead but as yet unburied. But he is still a socialist in the Revel sense when he puts in a plug for a "conservative welfare state." The idea of a welfare state, he says, "is in itself perfectly consistent with a conservative political philosophy—as Bismarck knew a hundred years ago."

**Two Cheers for Capitalism**  
by Irving Kristol. Published  
by Basic Books, 10 E. 53rd  
Street, New York, N.Y. 10022,  
\$10.00

Bringing Bismarck, the Prussian junker who prepared the soil for Hitler, into the picture I find just as confusing as Revel's attempt to root "socialism" in capitalism. The terms of the argument get unbearably fuzzy. Actually, Kristol is not for a welfare state; he is for a welfare society, which is something quite different. He is willing to let the

state define the uses to which people shall put their own money during a sort of Fabianism-in-reverse transition to a cooperative world built on a base of private property and free association. This is a tactical compromise, not a philosophy of the "conservative welfare state" as such.

### Fabianism in Reverse

I feel a certain kinship with both Revel and Kristol, for I have personally been through the evolution that they have, in my judgment, only half-completed. To have a pluralist society using democratic methods of government, there must be the property base. It's a matter of physics, as Isabel Paterson explained long ago. The free man must have something to stand on. He can't have free speech unless he can own his own sources of woodpulp and his own printing press. (If he wants to make that free speech oral, he must be able to hire his own hall in the market place.) If the state has the power to conscript one's income, thus preventing the acquisition of private property, the possibility of pluralism and democracy tends to disappear as the government pushes its power toward the totalitarian extreme.

Yet, in deference to Irving Kristol, we must acknowledge the tactical necessity of getting from "here to there" in a Fabianism-in-reverse movement back to the voluntary so-

ciety. Kristol is full of ingenious suggestions: he wants to move away from state social security and state medicine by letting individuals take their voluntary insurance payments to pension funds and Blue Cross and Blue Shield schemes as wholly tax-deductible items. He wants to see the Republican Party build itself anew on a program of offering "incentives for the citizen to provide for his own welfare."

### **No Sense of Direction**

The difficulty of working from the Kristol—or the Revel—position is that, when one becomes engaged in the game of Fabian compromise, it becomes increasingly hard to keep one's sense of direction. To get a compromise in a libertarian, voluntaristic direction, you need some muscularity and conviction in your preference for, say, private education versus the public school. There must be a determined opposition in society to the idea of state support of education in order to provide the leverage to fight for even the mildest Fabianism-in-reverse voucher system for parents who might prefer private schools. The question comes down to the polarities of pluralism. Where, and on what, do you take your stand?

Polarities are created in society before they send their representatives to the legislature. Mr. Kristol sees this point at times. He attacks

what he calls the "new class" for its greed for controlling the levers of power that are operated from a political base in Washington. The "new class" sets itself up as an elite with a mystical call to use the common man's tax money—and the inflationary paper dollar—to set the standards for society. With its support in the media, the new class has no compunctions about using compulsion to get its way. It wants no part of pluralism.

Kristol supports some regulation, but in his evolution to "neo-conservatism" he is having second thoughts about putting fetters on individuals and private organizations. He is worried about the bureaucratization of society that results from "new class" management of the people's tax money. The welfare state, he says, is on a collision course with a working class psychology which, while not rejecting any of the benefits of welfarism, feels victimized by it. It turns out that it isn't much fun to be managed by the elite "new class" sons and daughters of the old middle class.

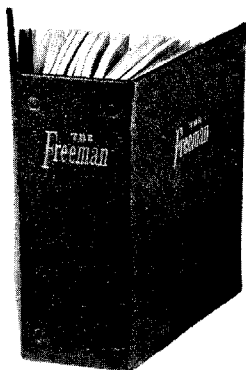
### **An Ugly Battle over the Question of Power**

In his progress from a quasi-socialism to neo-conservatism, Kristol has discovered "a dirty little secret." The new elite talks about the "redistribution of income." But it wants the income to be handed over

to the state, with the elite assuming the prerogatives of dishing it out. The battle is over the question of power. It is an ugly battle.

So Mr. Kristol has become a tax rebel. He would force the rich to bequeath their money to heirs in small amounts, but for the living he advocates letting them keep their money. He still chides capitalists for not "thinking politically." But in his own mind he considers the world has

become too politicized. He ends as he begins, by giving "two cheers" for capitalism on the grounds that the alternatives to it supported by the new elites range from the "hideous" to the "merely squalid." Communism, socialism and fascism have all turned out to be illusions or frauds. So let us have a political order that allows men and women a private life, using their energies as they themselves may choose. ⊕



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VOL. 28, NO. 8 • AUGUST 1978

- One Currency for the World?** **Henry Hazlitt** 451  
Look not to international agreements for a money as good as gold.
- Inflation—What It Is  
and What It Does** **Bettina Bien Greaves** 455  
Government creation of additional dollars discourages saving, hampers production, and denies individual self-reliance.
- Gourds and Dollars** **Ralph Bradford** 460  
From gourds to gold as money in Haiti.
- World in the Grip of an Idea**  
**20. The United States: Business  
as an Instrument of Political Power** **Clarence B. Carson** 463  
Government control over business makes business the instrument of government control of consumers.
- Keep Off the Grass** **Gary North** 475  
Observations concerning the nature and the impact of central planning.
- Robert Louis Stevenson:  
Champion of Liberty** **Bob Stevenson** 481  
A biographical sketch of the libertarian views of the famed storyteller.
- The Day After To-Morrow** **Robert Louis Stevenson** 489  
An early and accurate foretelling of the state of society under socialist rule.
- The Success of Failure** **Thomas W. Hazlett** 498  
Differences between governmental and market attitudes toward failure and success.
- Time for Truth—Time to Act** **William H. Peterson** 505  
An article review of the new book by William E. Simon.
- Book Reviews:** 509  
"Two Philosophies of Money: The Conflict of Trust and Authority"  
by S. Herbert Frankel  
"Economics: Principles and Policy from a Christian Perspective"  
by Tom Rose

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# ONE CURRENCY FOR THE WORLD?

“Needed: A Common World Currency.”

So asserts the title of an article in the May issue of *PHP*. *PHP* is a monthly magazine published in Tokyo, by a dominantly Japanese editorial staff. It is in English, however, and aimed at a worldwide audience. The title initials stand for “Peace, Happiness and Prosperity.” The author of the article is Konosuke Matsushita, founder of the international electric and home appliance industry, Matsushita Electric.

The hope that Mr. Matsushita expresses is one that has been voiced by reformers for more than a century. His arguments for it are persuasive. He refers to the wild fluctu-

ations in international exchange rates in the last few years. He points out that at the beginning of 1977 it took 290 yen to buy a dollar, but by the end of the year only 240. He reminds his readers that in December 1971 The Group of Ten countries met in Washington to set up a new international currency system, known as the “Smithsonian” agreement, hailed at the time as “the most important monetary agreement in history”—and that it broke down in a year or so.

After that the world entered a “floating currency” era. But this means that every day the exchange rate of every national currency fluctuates in terms of every other. It means that no one can foresee what any given currency will be worth in terms of any other a year from now, or even tomorrow. And so it means that every man engaged in import or export trade, or in any international business whatever, is forced to some

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Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Baron's*, *Human Events* and many others. The most recent of his numerous books is *The Inflation Crisis, and How to Resolve It*.

extent to become a gambler. Deploring all this, Mr. Matsushita concludes:

We need to integrate the wide variety of currencies we have now. In other words, I suggest we agree on the use of one currency that will be common in all the countries of the world. . . . I am fully aware of the numerous problems that would be involved, such as national pride, differences in economic level and so on. However, if we want to continue our community life on this planet, we're going to have to integrate our currencies at the earliest possible date. . . .

I suggest the United Nations or the International Monetary Fund take up the problem, seek to overcome the difficulties which lie in the way by eliciting the cooperation, effort and wisdom of every country, and therefore achieve an integration of the world's currencies for the peace, happiness and prosperity of the world.

I find Mr. Matsushita's article encouraging in one respect but disheartening in others. It is encouraging as a sign that leading international businessmen are beginning to call for an end to the present intolerable chaos in the foreign exchange market, and are willing to set aside national prejudices to achieve a return to order. But it is disheartening as a sign that these businessmen—probably the majority of them—still do not understand the basic causes or suspect the basic cure for the world currency chaos.

### **Balance of Payments**

Mr. Matsushita seems to think that the basic cause of the changes in the yen-dollar and other exchange rates was changes in the "balance of payments" between individual nations. He does not seem to realize that these wide fluctuations in the balance of payments were themselves in large part the result of different rates of inflation within the respective countries, and consequent shifts in the relationships between internal and external prices. His article nowhere mentions the enormous increase in the paper-money issuance of individual countries. And it nowhere mentions gold.

The truth is that the world once did have a common currency, in everything but name. It had such a currency roughly from the last third of the Nineteenth Century to 1914. It was known as the gold standard.

The majority of leading currencies were tied together not because they were tied to each other but because each of them was tied to gold. Each was directly convertible on demand into a specified weight of gold. The British pound was worth \$4.86 because it was convertible into 4.86 times the weight of gold that the dollar was. The French franc was worth approximately 19.3 cents for similar reason.

True, as an international system this had a few shortcomings. It

would have been far simpler and made calculation easier if each national currency had been made convertible into precisely the same weight of gold, or at least into a round relationship to other currencies—if, for example, the British pound had been convertible into exactly five times the weight of gold as the dollar, the dollar into exactly five times the weight of gold as the franc, and so on.

### **Fractional Reserve Gold Standard**

A more serious shortcoming, however, is that the various national currencies were not on a full gold standard but only on what is known as a fractional reserve system. That is, the gold reserve they were obliged to keep was not equal to the full amount of their outstanding paper currency, but only to a fraction of it. And as time went on, and individual countries experienced no excessive runs on their gold supply, they yielded to the temptation to increase their credit and currency issues more and more. Their gold reserves, in consequence, tended to become a constantly smaller and more hazardous fraction of their credit and currency issue.

The fractional-reserve gold standard, moreover, even while it was preserved, suffered from a chronic defect. In good times, one country after another was tempted to expand

its volume of money and credit. But when one country expanded faster than its neighbors, its internal prices increased relative to theirs. It became a better place to sell to and a poorer place to buy from. Its balance of trade (or payments) became "unfavorable." Its currency went to a discount on the foreign exchange market; and if that discount passed "the gold point," the country began to lose gold. To stop the outflow, it had to raise its interest rates and contract its issuance of credit and currency. It was this that caused the recurring business cycles, the alternation of boom and bust, that were considered by its critics to be inherent in capitalism itself.

Even the fractional gold standard was abandoned in Europe in 1914. The belligerents feared to lose their precious gold reserves, and in any case they wanted to be free to expand their currency and credit.

### **Gold Exchange Standard**

When the war was over the world went back, not to the old gold standard, but to a "gold-exchange" standard. This was something quite different. The gold-exchange standard meant that the majority of countries, instead of keeping their currencies directly convertible into gold, kept them convertible only into some "key currency"—for example, the British pound or the American dollar—which was sup-

posed to be directly convertible into gold.

As formalized at Bretton Woods in 1944, the gold-exchange standard became still more attenuated. The other participating countries agreed only to keep their currencies pegged to the American dollar; the dollar alone was convertible into gold. But even then, dollars were not, as formerly, convertible by anybody who held them, but only by foreign central banks.

The effect of this relaxation of discipline, combined with the growth of the Keynesian ideology, was increasing and almost universal inflation. The American monetary managers, under successive Administrations, did not seem to have the slightest realization of the weight of responsibility they had assumed in agreeing to make the dollar the anchor currency for the world. They continued to inflate until, when other countries finally became more importunate in their demand for actual gold, President Nixon officially suspended gold payments on August 15, 1971.

A profound irony in Mr. Matsushita's proposals is that he wants to turn over the problem of curing the world's currency ills to the International Monetary Fund. But the International Monetary Fund *is* the problem. It was set up at Bretton Woods, chiefly under the leadership of Lord Keynes of England and

Harry Dexter White of the United States, to make inflation and devaluation easier, smoother, and respectable. Instead of letting each country suffer the full consequences of its own inflation, the IMF used the stronger currencies to support the weaker. The long-run effect was only to weaken the stronger currencies. One of the Bretton Woods' objectives from the beginning was to "phase gold out of the system." One of the first steps in any real currency reform would be to dismantle the IMF.

Mr. Matsushita forgets that the meeting that drafted the Smithsonian agreement, to which he refers, came only three months after the United States suspended gold payments; that the Smithsonian agreement was thought necessary because of this suspension; and that it broke down so soon because gold convertibility was not restored. There is simply no substitute for gold convertibility.

No international organization can wave a magic wand, or draft a magic formula, that will bring a sound "world" currency. Each nation must bear full responsibility for its own currency. It can make it sound only by making it convertible into gold. And it can make and keep it convertible only by strictly and constantly limiting the quantity of that currency.

Because of the dismal recent record of practically all countries in swindling their own citizens, the return to an honest convertible currency may now be difficult and remote. Individual nations can begin by strictly limiting any further expansion of their credit and currency issue. Meanwhile they can grant the right to their own citizens to coin gold privately and even to issue gold certificates against their coins.

When governments are ready themselves to return to a gold standard, it would be well if this time they kept a 100 per cent gold reserve

behind their paper currency and so removed the expansionary temptations of a fractional-reserve system. And it would be an excellent thing, also, if their new currency unit were fixed as a definite round weight of gold, say a gram, and were called simply a goldgram—instead of a dollar, franc, mark, peso or what not—and if at least the leading countries could agree on the same gold weight for their unit. Then the world would really have, for all practical purposes, the “single” and common currency that Mr. Matsushita would so much like to see. Ⓜ

**Bettina Bien Greaves**

## Inflation— What It Is and What It Does



WHENEVER we act, we want our actions to be successful. It always helps to take stock of the past and to try to foresee the future. As all of us are buyers of some things and sell-

ers of others, the more we can know about what is likely to happen to prices the better.

Nowadays, more and more people complain of the higher and higher prices asked for practically all the things they want to buy and they expect prices to keep on rising further. Many say these higher prices are “inflation.” Then, because most producers and sellers of goods and services raise their prices fre-

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quently, people blame *them* for "inflation." They blame businessmen who are asking higher prices, labor unions who obtain higher wages for their members, the international oil cartel (OPEC) when it raises the price of petroleum, farmers who ask more for beef, manufacturers who raise steel prices which add to the costs of producing many other items. Then, when the higher prices of U.S. manufactured goods discourage foreigners from buying, they blame the declining "balance of payments" due to fewer sales abroad. The list of culprits blamed for "inflation" is almost as long as the number of persons offering goods on the market.

Usually ignored in these discussions is the one thing all prices have in common—the fact that they are expressed in dollars. Because prices are dollar prices, it would seem obvious that the number of dollars must have something to do with *higher* prices and "inflation."

Certainly people with more money will be able to spend more than those with less. They will generally be willing—and able—to offer higher prices for any particular item they want. Thus, when higher prices are not only being asked, but are actually being paid, for many or most goods and services on the market, it must mean that many people have more dollars to spend. Therefore, an increase in the number of

dollars may be the real culprit to blame for higher prices. Perhaps the increase in the quantity of money itself is the *real* "inflation." Let us look at the situation.

### **Do People Have More Dollars?**

In this country, only the national government, the Federal Reserve, and the banking system are now legally permitted to create U.S. dollars. If you and I were to manufacture dollar bills, this would be "counterfeiting." But the U.S. government and the banks may add to the money stock without fear of penalty. And they do just that. This expansion is carried out primarily by monetizing Federal debt, by Federal Reserve "open market operations" and by credit expansion through commercial bank loans to private borrowers. In other words, the Federal Reserve System, with the aid and support of the U.S. government, is responsible for the number of dollars in existence.

The official estimate of U.S. dollars is reported regularly by the Federal Reserve. Their figures show that the stock of money has been increased tremendously in recent decades, especially since World War II. It was almost doubled during the War—from about \$64.5 billion at the end of 1941 to \$132.5 billion by the end of 1945. Since then the number of U.S. dollars has mushroomed—during Republican and Democratic



administrations alike. From a figure of \$620 billion in January 1975, the money stock (currency plus private checking deposits plus commercial time and savings deposits) rose to \$806 billion at the end of 1977. With so many new dollars being created is it any wonder that many people are spending more than ever before? As a matter of fact, the increase in the number of dollars is inflation. It is this increase that accounts for the higher prices we all must pay for most of the things we buy.

### **Who Spends the Newly Created Dollars?**

Who spends the newly created dollars? And for what? That depends on the choices and actions of those who receive them—(a) the U.S. government, (b) the banks expanding credit to make loans and (c) those who receive the funds created. When the U.S. government is the beneficiary, the newly created dollars go into the general “pot” and are drawn on for various expenses. When the new dollars are issued by the banks in the form of increased loans, the banks determine to whom they are lent and each borrower decides how to use his borrowed money.

From October 1, 1976, through September 30, 1977, the federal government spent \$406.4 billion, only \$358.3 billion of which were covered by its receipts from various sources—taxes, bonds sold to private

persons, revenues paid for services rendered, and the like. Newly created money and/or credit made up the difference of \$48.1 billion. When the government spends these newly created dollars, they go for its various programs. No one knows who is getting old dollars earned in production and paid to the government in taxes and who is getting new ones. The tax funds and the newly created money all look alike and all go into the same U.S. government “pot” from which it pays its expenses.

However, we can be sure that these additional dollars enable the federal government to spend more freely and to support more non-producers than it otherwise could. And such federal programs, transferring wealth from producers and taxpayers to others who earn little or nothing themselves, have been growing fast. In 1975, Roy L. Ash, formerly director of the federal government's Office of Management and Budget, estimated that the U.S. government's “transfer payments” such as Social Security, payments to retired railroad and government employees, for Medicare and Medicaid, for welfare and social services, for food stamps, for veterans benefits and for the unemployed then comprised one-half of federal expenditures—up from only 20 per cent in 1950 (*Wall Street Journal*, July 28, 1975).

### **Multiplying Effects**

Not surprisingly, those who benefit under these government "transfer" programs are more willing and better able to pay higher dollar prices for the things they want than if they had to rely on their own resources. Their greater willingness to spend enables those who sell to them to ask for, and to receive, higher prices for these particular items. And these sellers *must* ask for more, if they want to stretch out their available supplies to meet the new demand from "transfer payment" recipients. Thus, the pressure toward higher prices increases. Then step by step, as the newly created money travels from one seller to another, it begins to affect other prices also.

When the new dollars come on the market in the form of bank loans to private consumers and business firms, the new borrowers are in a position to offer higher prices than before for whatever they want. Whether they spend their borrowed funds for consumers' goods, to hire workers, to purchase raw materials, to build factories, to expand or to start new production, those offering these particular goods or services on the market soon learn that these new borrowers will pay more than most previous customers had been ready to pay. Then they too begin to raise their asking prices in response to this newly stimulated demand.

This helps to stretch out the available supplies to meet the increased demand. It also serves to spur producers to expand production or to embark on new projects to satisfy their new customers. Then again, step by step over time, as the newly created money is traded from person to person the higher prices paid by beneficiaries of this credit expansion influence other prices also.

### **Certain Consequences**

What are the effects of creating new dollars? One effect of creating additional dollars, i.e., of inflation, as we have seen, is generally higher prices. However, they are only *one* effect. And they are not the most serious effect of inflation at that.

*Increasing the number of dollars leads to shifts in wealth and income.* As prices rise, more dollars are needed to buy things. The dollar's purchasing power goes down. As a result also the value of the dollar declines in the minds of people. Anyone who has been holding dollars and/or somebody's promise to pay dollars, suffers the loss of a part of their value. After a time when he spends his dollar savings, he encounters higher prices than prevailed when he was working and saving. Without going near his wallet, "piggy bank" or savings deposit, the inflaters have deprived him of a part of his wealth. The beneficiaries of the inflation and those who re-

ceive unexpectedly higher prices for their goods and services gain "windfall profits" at the expense of the previous owners of dollars and assets fixed in dollars.


*Increasing the number of dollars discourages saving.* Certainly if new dollars are being created in large quantities, holding dollars offers no real assurance of having anything like the same purchasing power later. Why work hard and save if the purchasing power of any dollar saved is expected to fall? Better spend one's entire pay check, enjoy life today and hope for the best tomorrow.

*Increasing dollars spent on "transfer payments" helps to keep non-producers dependent on government handouts.* With respect to one form of "transfer payment," the great free market economist Ludwig von Mises (1881-1973) described unemployment relief in 1931 as "one link in the chain of causes which actually makes unemployment a long-term mass phenomenon." By paying people not to work, "transfer payments" help keep non-producers idle. Thus they tend to weaken self-respect and individual responsibility. At the same time, the cost of paying more and more non-producers becomes an increasingly heavy burden on those who continue working and producing. If the programs are not discontinued taxes must be increased

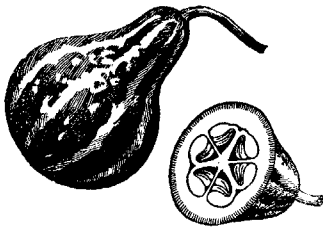
again and again. Or government officials, who believe sincerely in the "need" for continuing "transfer payments," are likely to resort to further inflation.

Higher taxes and more inflation are serious drags on production. They distort prices, alter the pattern of production, shift wealth from savers to spenders, discourage savings and investment and hamper individual effort, initiative and ingenuity.

### **Destroys Hope for Security and Independence**

Perhaps the most demoralizing effect of inflation, however, is that it discourages the desire and the hope of people for financial security and economic independence. It first destroys the value of the dollar so as to weaken the incentive to save. Then by holding out the hope of government-guaranteed security from retirement to the grave, government undermines one of the most powerful reasons to strive for financial independence. Self-respect, individual responsibility and family ties are bound to suffer. Thus, the end result of inflation is to dampen ambition, industry, the desire to save and invest, and pride in personal accomplishment and independence—all traits on which the future freedom and welfare of this country must rest. 

Ralph Bradford



# Gourds and Dollars

WHEN Jonah sat in the shade of his heaven-sent vine he was no doubt unaware (as he was of some other important things) that a time would come when the fruit of his shade-vine would play an important, if transitory, role in the field of high finance.

The time, to be sure, was far down the centuries from Jonah's day, and did not arrive till 1807. The place was a steamy but beautiful little island of the Caribbean. By that time the original Caribs had long since perished, and were replaced by Europeans, especially by Spanish in the east and French in the west—and by black slaves all over the place.

Slavery, of course, is always hateful and cruel; but there are degrees to the degradation it imposes; and the planters who had settled in the Artibonite Plaine of Saint Domingues had brought its horrors to a

new depth of savagery. At long last came the inevitable explosion. Suddenly the whole countryside was in flaming revolt.

And the slaves had able leaders: Ogé, Boukman, Chavannes, and others of lesser fame—all of whom were soon killed. And then came three compelling figures, former slaves all, whose names were to be inscribed, quite literally, in blood: Toussaint, Dessalines, Christophe. Toussaint was nicknamed L'Ouverture because as a general he always seemed able to "open" things up for victory—or for escape. His two great lieutenants were: Jean-Jacques Dessalines, unlettered and ferocious, but a great battle tactician; and Henry Christophe, a physical giant with the gift of leadership.

Christophe was born, it is believed, on the British island of St. Kitts, which at that time was still called Saint Christopher. This may account for his last name, and also for the fact that though he was French in speech and name and sen-

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timent, he always spelled his first name with the terminal English "y" instead of the French "i." Most likely he pronounced it Onree, but he spelled it Henry.

So much for the main actors. In a few swift and bloody years the dark drama of the tragic little black nation moved to its denouement. Toussaint was tricked, captured, and allowed to die miserably in a frigid French prison. Dessalines, after a grotesque brief masquerade as "Emperor," was murdered by his own people. That left the towering Christophe, who became head of state, and who finally made himself king. But the king business came later.

In 1807 this ex-slave stable boy and sometime waiter was named President of the newly-created Republic of Haiti. It was a moment of glory for the dignified man who, as a menial, had been slapped and treated to other indignities. But it was also a moment of great problems and sharp decisions.

For one thing, he headed a completely bankrupt government. The land had been laid waste by the ravages of the revolt against the landed proprietors, the revolution against France, the wars with the Spaniards on the eastern end of the island, and by their own internecine butcheries. There was no currency system, and Christophe had no money and no reserves of any kind.

Needless to say, he could secure no credit abroad.

But Christophe was both a resourceful military leader and an able administrator. He could not read, but he knew the absolute necessity of a workable currency system. And he knew something else—namely, that the people he governed relied greatly on the homely gourd vine in their domestic economy, using its fruit, when dried and free of seeds and pulp, to make all kinds of household utensils—bottles, decanters, bowls, saucers, cups, even spoons and plates. The gourd, indeed, was about the nearest thing to a constant and general necessity in the simple life of the Haitian peasants. And the gourd utensils wore out quickly, broke easily, and had to be replaced often.

As Christophe ascended to power a green crop of gourds was ripening. So he issued an edict that all gourds were the property of the state. He sent out collectors to seize them, and in a short time they had brought in and "deposited" the year's crop at Cap Francois. That became the "reserve" in Christophe's "treasury," and he put an arbitrary value of 20 sous on each gourd, which established the ratio of five gourds to the French Franc. Then he waited a while.<sup>1</sup>

<sup>1</sup>See pages 108-9 of John Vandercook's excellent book, *Black Majesty*, Harpers, 1928.

### Gourds to Coffee to Gold

Soon the important coffee crop ripened. Coffee, along with cane for sugar, were the money crops of the island. But there was little sugar as yet, because the sugar mills had all been burned down in the wars. When the coffee beans were brought to market, Christophe bought them—and paid for them with the gourds he had previously expropriated, sometimes from the coffee growers themselves! Then he resold the coffee to foreign traders—for gold; and before long he had a substantial metal reserve and could put a gold-supported currency into circulation. As one result of this remarkable adventure into sophisticated governmental finance, after 170 years the unit of currency in Haiti is still called the *gourde*. More significantly, the Christophe technique had become a potent, if unrecognized and unacknowledged, fixture in that form of fiscal legerdemain known today as deficit financing.

Not many Americans raise gourds these days, and converted cucurbitaceous shells have little importance in our national economy. But the gourds of Christophe are symbolic of other possessions of ours that are systematically diverted from their normal use by a modern and deadly version of the Christophe process.

*Those possessions are the dollars which we have earned and tried to save and invest, but which are taken away from us by the hidden and insidious seizures of debt-created inflation.*

No analogy is here intended or implied between the Haitian treasury dilemma of 1807 and the multitudinous, mountainous, and world-wide profligacies of our own government. We are not here concerned with those balance-of-payment problems occasioned by our many international involvements, but with the simple arithmetic of a perpetually unbalanced national budget, and the resultant gnawing away of our substance by the steady and relentless debasement of our money in relation to the things we would purchase with it.

Henry Christophe seized the people's gourds to underwrite his money. That was the lawless procedure of a dictator, a piece of hard-fisted brigandage. But it was a one-time expedient to meet an emergency, and was never repeated. Even so, it was an illegal act of ruthless seizure. And yet . . .

And yet . . . as between two methods of expropriation, the one lawless but visible and not continued, the other legal but hidden and ruinously perpetuated—maybe there is something to be said, after all, for Christophe and his gourds! ☉



# World in the Grip of an Idea

Clarence B. Carson

## 20. The United States: Business as an Instrument of Political Power

BRIDLES for horses are equipped with blinkers. They are flaps on both sides of the horse's head at the level of the eye. Horses are skittish animals, and the purpose of the blinkers is to shut off peripheral vision so that the horse will not attend to or be startled by something seen out of the corner of the eye.

Modern man is provided with blinkers, too. These are intellectual

blinkers provided by the prevailing ideology. Under the sway of the idea that has the world in its grip, intellectuals blinker or blind us by determining what are the issues and in what terms they are to be discussed. Our intellectual vision is narrowed to take in only what we are supposed to see. True, there are those who persist in seeing more than is prescribed, but they are usually denied any forum from which to dramatize their viewpoint.

The prevailing ideology holds that "business," defined as an interest group, is in a continuing opposition to government intervention and

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

regulation. The antecedents of this notion are in ideology. Marxist ideology proclaimed that a class struggle was in progress. The main antagonists in this struggle were the capitalist class and the proletariat class. Gradualists have watered down this doctrine considerably, softened it at the edges, and made it less pronounced. But as they have instituted their reforms and regulations in the United States, they have clung to a subtle variation of the class struggle notion that capitalists are the enemy. On this view, businessmen favor *laissez faire* and oppose government intervention, while government intervenes on behalf of "the people" to hold obstreperous businessmen in line. These are the terms in which the issues must be discussed, if intellectual fashion is to be observed.

The Marxist notion that capitalists constitute a class vigorously defending their interests against all challengers is about as valid as would be the notion that all females eligible for marriage constitute a class pursuing the common aim of marriage. The fact is that eligible females are in competition with one another for the available swains, if matrimony is their object. In their own way, businessmen are in competition with one another. They compete for customers, for materials, for workers, and for whatever they conceive would be advantage-

ous to them. True, some businessmen oppose regulation as a matter of principle; and a goodly number oppose regulations when it is expedient to do so. It is also the case that businessmen are more apt to denounce regulation than are, say, journalists or teachers—regulation of business, that is.

Be that as it may, it is a grotesque distortion of what is happening to look at the matter this way. There is every reason to believe that businessmen spend vastly more ingenuity, energy, and money to get regulations construed so as to be able to live with or take advantage of them than they do in opposition to intervention. If this were the issue, however, there would be room for it as an issue in the framework of the prevailing ideology. There has been much discussion over the years about how the regulated manipulate the regulators. Those favoring government restraint of business have deplored it, while those more favorably disposed toward the needs of business activity have been more charitably inclined toward something they consider inevitable in any case.

### **Businesses Collect Taxes**

But what is happening most prominently is of a different order. The grip of the idea is being fastened on America by using business as an instrument of political power. Much



of the force of government power reaches the individual today indirectly by way of his employer and the other business and financial institutions with which he is involved.

Some of this instrumentation of business by government for its own ends is well known and needs only to be alluded to in order to be accepted. Businesses collect most of the taxes from individuals and pay them into local, state, and federal treasuries. This has already been discussed in connection with restrictions on enterprise, but it needs further elaboration in the context of government use of business to extend political power. Employers collect most income taxes, both state and Federal, by withholding them from salaries. They also collect Social Security taxes in the same way. Stores and other retail outlets collect sales taxes. On budget type mortgages, the mortgage company collects one-twelfth of the projected real estate taxes by way of the regular monthly payment. Telephone, electric, and gas companies add whatever taxes there may be upon their services to their bills, and when the bills are paid, the tax amounts are set aside to be paid into governments. Service stations collect the taxes on gasoline, tires, and other automobile accessories. There are also a considerable variety of hidden taxes on businesses which are generally passed on in the price of the product.

The most extensive of these, though it is not usually referred to as "hidden," is the tax on corporations.

Businesses collect these taxes, of course, because they are required by law to do so and would be subject to punishment if they did not. The collection of them, the keeping of records, and the other costs associated with it, are generally a cost of doing business. The consumer pays these costs as well, though it is only fair to observe that he would no doubt pay them, and they would probably be higher, if government collected the taxes directly.

However that might be, it should be clear that government has empowered businesses to perform the bulk of one of its most disagreeable functions—the collection of taxes. This does not mean that people usually blame businesses for the taxes, though they are apt to blame them for high prices when, in fact, much of the price is attributable to taxes. The main impact of this use of business by government is somewhat more subtle. When business collects the taxes the individual loses his ability to contest paying them. He can only prevent income taxes from being withheld by quitting his job. He can only refuse to pay the sales taxes by declining to buy what he wants. The normal route for taking a case to court is denied him because of the difficulty in refusing to pay. The individual's economy is in-

tertwined with the power of government over him.

### **Enforcement of Labor Laws**

Business becomes an instrument of government, too, as the main executor of the government's labor and employment policies. The individual is the pawn in the midst of the complex rules by which government activates its policies through business. Whether he can get a job at all, whether he will have to join a labor union, how long he will work for how much, among other things, are determined by government policy.

Wages and hours legislation has been around for forty years now. Government prescribed minimum wages determine practically whether a person may be employed or not. If a person is unskilled, handicapped, or slow, he may not be sufficiently productive to be employed for a job because of the mandatory wage. The inexperienced are at a particular disadvantage, because a prospective employer has no way of knowing how long it will take or even whether an applicant may become productive enough both to earn the minimum wage and repay the expense of training him.

Union wages and other rules and restrictions are often an extension of government policy over business. The National Labor Relations Board, an arm of the federal government, establishes the frame-

work, though it may not be known, sometimes, in advance of a ruling, within which company-union relations are to be carried on. Once a company recognizes a union, it tends to become an instrument of union policy—collecting dues, hiring through a union hall, requiring union membership of those it employs, maintaining seniority rules, and paying a union wage. The individual is at the mercy of the NLRB, the labor union, and the company when they act in concert.

Fair employment practices, as they are called, and Affirmative Action are prescribed by the federal and many state governments. Thus, the hiring and promotion practices of business become an instrument of government policy. To avoid litigation or government penalties many firms undertake joint ventures with minority owned companies, establish what are in effect quota systems in hiring and promotion, and conduct searches for minority personnel to fill vacancies. To the extent that political prescription is substituted for business judgment, a business becomes an instrument of political power.

Many of the regulations, restrictions, and restraints under which we live are imposed by way of business. For example, automobile safety equipment and emission controls come by way of requirements on auto makers. Safety belts, shoulder

harnesses, interior design, structural strength, and so on, have made their appearance not from customer demand but by way of legislation. Buzzers, filters, and an assortment of other devices are attached to the vehicles by government fiat. An individual who wishes to have his vehicle divested of any of this impedimenta must either do it himself or find a wayward mechanic to do it for him.

### **Housing Regulations**

Most of the housing available to us has its quality and character determined by building companies and financial institutions acting as instruments of government. Most of the financing of homes comes from privately owned institutions. However, their lending policies are heavily influenced and widely determined by government policy. VA and FHA guarantees undergird a considerable portion of the loans made to individuals. Although the money comes from private sources, VA and FHA lay down standards for and determine much about the houses so financed. Many savings and loan associations are federally chartered and make their loans in terms of these government charters. Builders impose, as it were, the numerous requirements of local, state, and federal government on buyers, such things as zoning restrictions, set-back ordinances, dis-

tances of buildings from property lines, structural standards, sanitation and electrical prescriptions, the paving of streets, and so on and on. Real estate agents, if their services are to be used, impose the rules governing them upon their customers.

Examples could be multiplied of businesses as instruments of government, but perhaps enough has been told to establish the point. Virtually every business in America (if there is an exception, it has escaped my notice) acts as an arm of government in one way or another and to a greater or lesser extent. While the evidence to substantiate much of this must be familiar to most of us, the implications and results of it may not be so readily apparent.

The matter is more complex than the above would indicate. The examples thus far could be interpreted as being simply a case of government imposing rules upon business which they in turn, however reluctantly, impose on their customers. Undoubtedly, that is the way it is often enough. But that is hardly the whole story. *Government and business are so intricately intertwined today* that many businesses have taken on the character of governments. I would like to back into an explanation of the how and why of this development with a simple story.

### **Banking Policies**

Some years back I lived in a state which had a tax, imposed annually, on checking accounts in banks. This tax came to my attention one day when I was going over my monthly bank statement. There was a deduction from my account to pay this tax. This struck me as highly impertinent behavior by the bank. My understanding of the agreement I had with the bank was that when the spirit moved me I would deposit money with them. Then, when, as, and if I decided to do so I could order all or some portion of it to be paid out by writing checks on the account. They were trustees, so to speak, of such money as I deposited with them and were only to disburse it on my order. It seemed to me they had violated that trust by paying out my money without my knowledge or consent.

With that understanding in mind, I placed a call to the highhanded bank in question. (I am now older and wiser and therefore know in advance the futility of such calls, although I still make them sometimes just to prove that I am alive.) When I had finally been connected with someone sufficiently high up in the bank to deal with so exalted a question, I made inquiries about their behavior. I was assured that the bank had acted in accord with state law, something I had never for a moment doubted. But, I asked, has

the law been challenged? He did not know, as best I can recall, nor, so far as I could make out, care.

My thought was that this manner of taking my money was in violation of the Fourteenth Amendment to the United States Constitution, which prohibits states to take the property of their citizens without due process of law. Moreover, it seemed to me that the bank had strong incentives to challenge such a law. After all, the bank wanted deposits from customers, and one of the best arguments for using their services was the security they provided for your money. It happened, too, that the bank was ideally situated to challenge this law, for it could do so by refusing to pay the tax, an option not available to me. In addition, the bank probably had a prestigious law firm on retainer to protect its interests, since this particular bank was one of a large chain spread over the state, there being no law in that state to prohibit branch banking.

My reasoning was not so much faulty as incomplete. True, banks have the incentive to reassure and protect their depositors. But I was ignoring something so basic as that the state government was probably one of the largest depositors in the bank. Indeed, the likelihood is so great as to amount to virtual certainty that the tax money taken from mine and other accounts did not even leave the bank; it was just

shifted to the state's account. That, however, might not have been determinative if it were all that was involved.

I was ignoring the more trenchant fact that banks are creatures of government, that their very existence by charter depends upon government, that their privileges arise from the state, and that banks can be harassed, audited, have their charters revoked, or be closed down. That being the case, banks are about as likely to take on an adversary relationship to the state over some paltry tax as an unemployed spinster is to sue her parents with whom she lives over the lack of variety in her breakfast. Besides, the tax could hardly harm this chain of banks if all other banks in the states had to collect it too. Laws applied to a whole industry become merely a condition of doing business.

Is this an indictment of business? No, it is a description of what is happening in America as the concentrated power of government tightens its grip on people. The idea that has the world in its grip only permits what is called private business to exist on sufferance. It can exist only to the extent that it serves the ends of the idea as determined by those who control or manipulate government. Businessmen know that as a rule they cannot even survive, much less prosper, if they adopt an adversary relationship

with government. Both politicians and businessmen sometimes speak as if they were adversaries. No great harm results. The ideological view of the relationship is affirmed, and each is given an opportunity to vent his spleen. But beneath the surface something quite different is going on.

### **The Ties that Bind**

Business and government are intricately intertwined. Businesses generally depend upon government for charters, for licenses, for contracts, for subsidies, for guarantees of foreign investments, for favors for their particular industry, and so on, and on. Business serves government in the ways that are specified, becomes an instrument of government, in order to continue to function and, hopefully, make a profit. Airlines seeking new routes, continued payment for carrying the mail, and favorable rates are not about to contest the regulations on smoking that they apply to their passengers. Home builders hoping for some new government subsidy program to enable them to sell more houses have the incentive to work with rather than oppose government. Public utility firms seeking higher rates can hardly afford to object to being tax collectors. Whether unwillingly or not, business acts as a partner with government in imposing political power on Americans.

You cannot play with fire without getting burned, of course. The more closely business becomes intertwined with government, the more like government it becomes. The object of politics is power. The aim of business is profit. The method of business is attraction and persuasion. The method of government is force. As business becomes politicized, it does not forgo its aim of making profits. What it does do is begin to seek to use the force of government to increase its profits. Power and profit are linked together as government and business become intertwined.

### The Energy Crisis

This development may best be illustrated by an example. In the early 1970's a gasoline shortage occurred. It was a shortage engineered by politicians, of that there should be no doubt. The governments of several major oil producing countries declared an embargo and proceeded, thereafter, to raise the price of oil drastically. The shortage evaporated and was no more, though prices of gasoline were much higher than before. Nonetheless, American politicians proclaimed that we were in the midst of an incipient energy crisis. What the politicians had discovered was something known to economists for at least two hundred years, and to most other folks considerably longer, namely, that the

sources of energy are *scarce*. Indeed, it is the very *scarcity* of fuel that makes it costly at all. We shall not, of course, run out of energy—not, that is, until the sun grows cold or this planet is wrenched away from its favorable location to the sun—but different sources may have to be tapped to get it.

Nonetheless, having misconstrued permanent scarcity as incipient and worsening shortage, some politicians went into their "sky is falling" routine, made a national problem out of it, and began to bring forth programs to solve it. Not surprisingly, these programs involved various sorts of government intervention. What may have been surprising, however, was the way in which fuel suppliers joined into this hue and cry. Full-page advertisements began to appear in newspapers, ads paid for by oil companies, electric power and gas companies, and such like, urging the conservation of energy and describing the efforts they were making to deal with the shortage. Power and gas companies began to include tips on conservation of energy in the envelopes containing their bills. Business instrumented itself swiftly to political policy.

For years, electric companies had urged their customers to use more and more electricity. They had extolled the virtues of electric appliances over all others.

Moreover, they had encouraged greater use by giving customers lower rates as the amount used increased. Indeed, there did not appear to be anything odd about this earlier behavior. It was what advertising was for, to encourage use of a product. It was in keeping with what is economic. There are economies of scale in production. In the case of electricity, this means that when the investment in machinery has been made, the more that is produced with it, the less it costs to produce each unit. In order to sell this electricity, the company would promote greater use by reducing the rate as more was used.

And then, overnight, as it were, electric power companies stopped advertising their product and began propagandizing for conservation, adopting the same line as the government. Utility commissions began to approve what are called "inverted rate structures." What these rate structures do is penalize heavy users of electricity, by charging higher rates for greater amounts of electricity. The model for this rate structure must have been the graduated income tax.

Why would a power company stand still for such a rate structure? After all, it still got the advantage of economies of scale whether there was an energy shortage or not. Moreover, it costs little, if any, more to get the electricity to a home using

1500 kilowatts per month, say, than one using 500. The meter has to be read only once each month regardless of how much electricity is used. It costs as much to bill the user for 500 as for 5000 kilowatts, and the same expenses attend processing either account.

There are two answers which help to explain this otherwise strange power company behavior. One is that the power company was serving the source of its monopoly—government. The other is that the company was being well served, at least temporarily, by the utility commission. Undoubtedly, a power company could be greatly enriched if it could enjoy economies of scale and charge even more for this electricity than that bought by small-scale users.

Most likely, such a policy would, in the long run, be harmful to the power company, for profits would surely dwindle as use declined. But in the short run—before those who had all-electric homes could convert to other power sources, before alternative sources of power have been developed, before people changed their life styles to reduce the consumption of electricity—the companies should reap a windfall of profits.

Of course, high profits would bring them to the unfavorable attention of utility commissions who had approved the rates in the first

place. Except that some power companies have already been foresighted enough to forecast a need for a vast amount of capital to increase production to meet demand. It apparently does not matter that the demand they are forecasting is based upon a projection of increases in the past, increases which took place when the use of electricity was being vigorously advanced by advertising and lower rates for heavy users. What the present policies will lead to is uncertain. Meanwhile, the intertwining of government and business has produced some strange uneconomic policies.

### **The Customer Loses**

The final stage of business as an instrument of government will almost certainly be that business will be transformed into government, or be so much like it that we will have a distinction without a difference. The most basic distinction between business and government is this: Business serves; government commands. That distinction has been breaking down for years. One way it has broken down is that government has provided many services itself: education, parks, electric power, mail delivery, garbage collection, and so forth. The other way is that many businesses have been granted monopolies and special privileges so that they become more like governments than businesses.

Government regulation of business is almost always advanced as a way of restraining or inhibiting business. But it does not necessarily work that way. Government regulation limits and restrains business in serving customers. If a business is only permitted to stay open during certain hours, that limits its service to those hours. If rates are regulated, this may appear to limit the businessman, but it also limits the way in which he can serve. But most importantly, as the businessman is more closely regulated he shifts from serving to enforcing the conditions under which he will serve. He comes to resemble the policeman more than a businessman.

Public utilities are apt to be as inflexible in enforcing their rules as any government. The telephone installer will not install the telephone unless the householder is at home. The utilities will not begin service, ordinarily, until the person wishing to be served has made his way to their offices, put up a deposit, provided whatever information they require, and otherwise satisfied them that he is responsible. Hospitals are notoriously rule-ridden places, and many a nurse appears to be a frustrated prison matron. (It should be noted in this connection that hospitals are generally heavily subsidized by government and are coming under ever more strenuous regulation and controls.)



### **From Service to Compulsion**

Every organization must have internal discipline over its employees, of course. That is not at issue here. What is at issue is the shift of business from service to compulsion. It is, no doubt, a natural tendency of those who live under rules to shift the weight of the rules from themselves toward those whom they are supposed to serve. There is a corrective to that in the open market under competition. The customer does not like to be ordered around, and he goes elsewhere. He gives his business to those who wish to serve him rather than command him. Any rules that he perceives that apply to him had best be kept to the minimum and be unobtrusive.

When government steps in, that changes. So long as the rule applies to all in the industry, competition is no longer a factor in whatever is involved. The business no longer has to serve in that particular way; it needs only to do whatever the law requires. When rates are regulated, the business need no longer compete in that way. If some of the rates are not particularly profitable, those in the industry will discourage that particular custom, providing only the bare minimum of service that the law allows. Indeed, the burden of obtaining the service is often shifted to the customer. For example, when long-term interest rates for home buyers has been set below the mar-

ket rate, the borrower usually has had to pay for the loan by what are called "points" and other advance charges. In addition to that, the conditions to be met in order to obtain the loan are usually quite exacting. Long waits for loan approval are common. The lender is not gladly serving; he is emphasizing the commanding position he occupies.

Evolutionary socialism advances gradually and step by step in America. The inroads are usually made under the guise of controlling, regulating, and taxing business and the sources of capital. On the surface, this does indeed occur. But beneath the surface government and business become intertwined. Business becomes an instrument of government, willing or not. Business becomes politicized. Business begins to serve its master, government, instead of or in addition to the consumer. Business begins, unwittingly perhaps, to adopt the posture of compulsion rather than of service.

According to the lore of our time there is a public sector and a private sector in the economy. But where is the private sector? Does it consist of privately owned companies such as those of the auto makers? What is private about mandatory seat belts and shoulder harness? What is private about mandatory emission controls? What is private about being forced by government to recall millions of automobiles annually to re-

place parts? What is private about having to pay union wages and submit to union requirements reinforced by the National Labor Relations Board? Rather than referring to this as the private sector, it would be accurate to refer to it as the politicized sector of the economy. But which "sector" is not? Some are more, some are less, but all are being politicized.

### The Political Framework

The deeper significance of this development needs to be clearly understood. To understand it, it is necessary to see it in terms of the appropriate theory. Much has been written about the impact of intervention in terms of economic theory. This is enlightening and informative. But when business becomes an instrument of government, economics becomes secondary, for the framework and the determinative element is no longer economic. It is political, and political theory must provide the framework from which it is to be understood.

Political theory has to do with how effectively to govern and how government may be restrained and limited. The greatest work on political theory in the United States was *The Federalist*. It was written as an exposition and defense of the Constitution of the United States and, more specifically, to urge its ratification. The great principles set forth

there are those of constitutionalism, of representative government, of the dispersion of power in a federal system, of the separation of powers into three branches—all of which they argued would provide an energetic and strong but limited government.

The reason for limiting government was clear to the Founders of these United States. Government is dangerous. It differs from other organizations in that it has the power and authority to use sanctions. In a word, it is empowered legally to use force. Unlimited government means unlimited use of force. In practice it means that all institutions and organizations are permeated by force. The end result is tyranny.

No better prescription for tyranny could be written than to make business an instrument of government. Every businessman and every employee of businessmen becomes a servant of government. Every consumer, each one of us, is at the mercy of politicized business. The usual argument against intervention is that it is harmful economic restraint of goods and services business can and would provide. There is a more telling argument. It is that government control over business is inevitably government control over consumers, and the instrument of that control is business. ④

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Next: 21. *The United States: The Thrust to Transformation*

# KEEP OFF THE GRASS



I travel to a lot of colleges and universities. I give lectures, or visit friends, or just wander through libraries. A library is to me what a security blanket is to Linus. So I always enjoy seeing a new college.

There is an almost universal phenomenon that I observe on college campuses. Almost everywhere I go, I find lovely green lawns. Students are given a truly lush environment to use as they pursue their studies or whatever. It costs a lot of money to keep these lawns watered, trimmed, and in healthy shape. Laid out in the midst of every lawn is a system of concrete or asphalt walkways that connect buildings and other key meeting spots.

A walkway is an important item. It directs students and visitors. It allows them to keep their feet dry most of the time, or free from mud. It keeps freshly cut grass off their shoes. Most of all, it keeps them moving along prescribed paths. Sometimes.

The odd fact that I invariably notice is this: every campus will have at least one lawn where the students have wandered from the straight and narrow. Some new route has captured their fancy, and you can see squashed grass along odd routes, or sometimes even hard-packed earth where no grass can grow. The sight of these "user-developed" walkways is usually offensive because of their lack of symmetry with the lay-out of the other walkways. No architect designed them, no overarching plan

integrated them, and no amount of pleading from the administration could remove them (if administrations ever pleaded about anything but money these days).

From the point of view of aesthetic considerations, these alternative paths are eyesores. They challenge the rationality of the architectural design. They are an affront to the planner who carefully laid out the lawns, buildings, and walkways. They are irrational from the point of view of some planning committee. All the committee's work in seeing to it that walkways were provided in rational locations is being challenged by people who do not show proper respect for aesthetics or organization.

Yet students are an independent bunch, at least when confronting administrative authority. They really are not concerned about the costs that went into designing pathways across campus. What they care about is the fastest way to get from Psych 109 to Chem lab. Or from History 7A to English 1A. And as popular classes are moved from one room to another, with other popular classes at preceding or succeeding hours producing very different population flows, the best-laid plans of architects are buried under the packed soil of the alternative routes.

The larger the campus, or the older, the more alternative path-

ways you will find. If new buildings are constructed, you can count on some new paths of ruined grass. People make rational decisions concerning the use of their time and effort, and the grass reflects their estimations. The cost of preserving lovely grass panoramas untouched by human foot proves too much to bear. So much for expensive architects.

### **Designed to Serve**

If I were a campus architect, I would recommend to the administration of a newly designed school that they put in no walkways at all. Maybe one, between the parking lot and the main building, since it doesn't take a crystal ball to forecast *that* route's popularity. But it would be far better to let the grass grow and the students wander. Let the students get their feet wet, or grassy, or muddy for a semester or two. Then, when the pathways appear in response to student decision-making, the cement mixers could be called in, and the rational walkways installed. This would do a great deal to reduce the number of unplanned paths around the campus.

But if the administration were to demand respect, and put signs around the lawns telling students to keep off the grass, they would alienate students, create hostility, risk constant violations, and reduce the

benefits students receive through sitting on the grass. To defend the logic of the central planning agency, the administration would convert the grass into a purely ornamental resource—one which might be resented by students who were being forced to use less efficient pathways to get from class to class.

The interesting thing to consider is the fact that *paths require planning*. The nicely laid-out paths require an architect, or committee, or at least a team of cement-laying craftsmen. But the other paths also require planning. The planning is individualistic. A student wants to save some time to get from here to there. He makes a decision to cut across campus by way of a particular lawn. He may be imitated by other classmates who see the wisdom of his pathbreaking innovation. Or he may be a lone wolf who takes very odd classes at peculiar hours, so no one follows his lead. But in any case, students make decisions. "Can I risk the mud to save two minutes? Will my shoes get covered with cut grass if I cut across? Are my friends going along the prescribed concrete path? Should I stick with tradition?" Then they make a decision.

What we might say, then, is that the unofficial pathways are *the product of human reason but not the product of human design*. They are the product of human action, but no central planning agency ever met to

consider the logic of the routes. They are reasonable, efficient, and preferred by those using them, but they are only randomly integrated into an aesthetically pleasing design. They meet the needs of the users, though not the preferences of trained, certified, professional designers.

Is it any wonder, then, that designers prefer rules keeping people off the grass? Is it any wonder that they would prefer to keep their design intact at the expense of those unprofessional, untrained users who would mar the coherence of a grand design merely for the sake of saving 30 seconds between classes? How can planners protect their creations from those who care nothing for beauty and everything for convenience? Simple; they get the authorities to enforce the rule: "Keep Off the Grass."

### **Market Parallels**

Isn't the attitude of the professional lawn designer similar to that of the professional economic planner? Only the planner is not dealing with anything so simple as designing a few pathways between a handful of buildings in a limited geographical area. The modern central economic planners have to deal with millions of citizens who are capable of making an almost infinite number of allocation decisions with their scarce economic resources. The task

of the central planner is astronomically large, or worse; for people, unlike the orbs of space, keep changing their minds and wandering down forbidden, unpredictable paths.

Why is it that as society has grown more and more complex, defenders of the idea of central planning argue that we need even more central planning? We see on campus that rational designers cannot foresee the responses over time of a few thousand students. Yet the economic planners would have us believe that they, when given access to computer print-outs, can administer a comprehensive rational plan embracing the lives and hopes of millions of people. What we can see with our own eyes does not work very well over time on campus, we are expected to believe with respect to an entire economy.

The planners of an economy need the resources available to men for their comprehensive plan. It is not an aesthetic inefficiency that concerns them; it is the smooth functioning of the collective plan. Those who choose to use scarce resources in unpredictable ways are a far greater threat to the planners and their plan than students who only rearrange the paths on some local college campus. The economic planners are unwilling to tolerate this threat to their design. They are unwilling to consider the logic of those who prefer production and distribu-

tion to be handled through a market. The market was never designed; like the unofficial pathways, it was the product of human action but not human design. So its rationality is not accepted as "true rationality" by those who define reason in terms of a central plan made by a staff of certified professionals. To be rational, the results must be the product solely of design, by definition.

### **Controls for Protecting the Grand Design**

This creates an enormous incentive for central planners to restrict the "random wanderings" of "unprofessional" decision-makers who are not aware of the grand design. The planners have laws passed keeping men from making certain kinds of exchanges, or exchanges above or below an approved, designed, "rational," just, fair price. No one is to gather too many resources under his control, for this would be monopolistic. No one must sell (or buy) goods or services that are not of the officially approved quality. No one is to bring in resources from across a border, since in order to bring in resources, one must send out other resources—and these may be important to the smooth functioning of the central plan. One never can be quite certain, so it is better to prohibit the exchange. So the economy becomes littered with signs that are the

economic equivalent of "Keep Off the Grass."

But what is the grass for? What are the resources for? Are they for the enjoyment of central planners, designers, and allocators? Or are the resources for the enjoyment and use of those who use them? Who is better able to decide? Must efficiency be sacrificed on the altar of central planning? Must people's assessments of the best use of their resources be thwarted by the decisions of a central planning committee far removed from the daily lives of individual decision-makers? Why should we have faith in such a distant board of experts?

### **Who Owns the Grass?**

The college, through its board of trustees, owns the grass. The students use it as guests of the college. So the administration has the right to put up signs if it prefers to do so. But the students also have the right to transfer to a more congenial college. And college budgets being what they are today, most administrators are prepared to put up with a few unauthorized dirt paths through the grass. They face competition.

A central planning committee also owns the "grass." This is the meaning of ownership. The central committee can use the economy's resources as it, the committee, sees fit. The meaning of ownership is simple: the owner has the right to

*disown* the property. If he cannot sell it or dispose of it as he sees fit, then he is not the ultimate owner. The modern State asserts the claim of ultimate ownership over the assets within its borders. The modern State says that it owns the grass. But unlike college administrators, the modern State faces no legal, direct competition. It is expensive to "transfer" to a new "campus." And where central planning is fully enforced, or enforced beyond the willingness of its citizens to endure voluntarily, the modern planning State puts up barbed wire and guards and electronic sentries along its borders. The "workers' paradises" all seem to have this "transfer" problem. They have to put up the barbed wire in order to make certain that their citizens cannot go to a place where there are very few signs reading, "Keep Off the Grass." They do not want their citizens to experience the joys of ownership, where the citizen owns his own grass and can put up a sign to all others, including State officials, saying, "Keep Off *My* Grass."

### **Make Your Own Path**

The free market allows us to buy another man's lawn, or lease access across another man's lawn for a price. It allows us to put up signs or to let anyone use our property. It allows others to bid for ownership, thereby placing a cost on our con-

tinued planting of our "Keep Off My Grass" signs. We then forfeit income by keeping others off our grass, so we have to count the costs of our restrictions, daily. The free enterprise system allows us to buy our way across a wilderness or another man's front yard. It lets us put in our preferred pathways as we see fit, to use as we like or to sell to others who will offer us what we regard as better opportunities, better pathways. Some may follow us. We may follow others. Or we may strike out on our own.

The point to bear in mind is this: we can buy our way across another man's lawn if we offer him his price. And if he won't sell, perhaps some other lawn-owner will. We buy resources and use them to construct our own pathways, to use as we see fit. They may be geared to beauty, or they may be "merely" efficient. If men are allowed to do this, some will come up with designs that are both efficient and beautiful. Others may come up with plans that are inefficient and ugly—in their neighbors'

eyes. But at least their neighbors can bid on the eyesores and possibly buy the right to improve them. When the planners own all paths, and there is no open, legal market for control, the pathways are sure to displease many. And there won't be legal alternatives available for those who are displeased.

So men must be resigned to keeping off their neighbors' grass if that is what their neighbors prefer. The alternative is the use of force, directly or indirectly (politically), and the result of violence is the transfer of all grass to the State's central planners. The State asserts its rights of ownership to "solve" the problem of envy and violence. Then we will live our lives in a world of lawns that are filled with signs, "Keep Off the State's Grass." And if history reveals anything, we can safely predict that the grass will be overgrown with weeds and the pathways will be cracked and stained. No one wants to maintain and improve somebody else's lawn. ☉

### Underlying Ideas

IDEAS ON



LIBERTY

INSTITUTIONS and laws are but the outward manifestation or outcome of the underlying ideas, sentiments, customs, in short, character. To urge a different outcome would in no way alter men's character—or the outcome.

GUSTAVE LE BON



**Bob Stevenson**

# Robert Louis Stevenson: Champion of Liberty



“At the sight that met my eyes, my blood was changed into something exquisitely thin and icy. Yes, I had gone to bed Henry Jekyll, I had awakened Edward Hyde.” Literature buffs instantly recognize who wrote these words: Robert Louis Stevenson, one of the all-time great Champions of Liberty. “Super storyteller, I’ll agree; but, Champion of Liberty?” you wonder. Precisely! For this beloved author of *Treasure Island*, *Strange Case of Dr. Jekyll and Mr. Hyde*, and other masterpieces also penned the following:

No man can settle another’s life for him. It is the test of the nature and courage of each that he shall decide it for himself.<sup>1</sup>

In fact, Robert Louis Stevenson’s writings are replete with such sayings extolling the virtues of self-

responsibility. That this is so becomes understandable when we study RLS’s life, a tale more inspirational than any he wrote.

Robert Louis Stevenson was born November 13, 1850 in Edinburgh, Scotland to Margaret and Thomas Stevenson. Louis, as his parents called him, was Margaret and Thomas’s only child. As a youngster, Louis suffered from one serious illness after another—bronchitis, gastric fever, and so on. The times he hovered near death were innumerable. But, the boy held on; two major factors were responsible for this. First, Thomas Stevenson was a successful engineer who could afford the best medical care for his son. Second, Louis’s extraordinary nurse, Cummy, constantly lavished the child with love and attention.

Cummy’s impact on Stevenson’s life cannot be overemphasized. She

**Mr. Stevenson is a free-lance author from Fullerton, California.**

kept Louis's mind off his misery, the dreariness of lying in bed day in and day out, by continually *reading to him*. Nowadays RLS's nurse might have turned on the TV, and considered her job done. But, would Stevenson—without Cummy—have developed into the remarkable writer he later became?

Because of his poor health, which plagued him most of his life, Louis didn't enter school until he was seven years old. The school was a private school, kept by a Mr. Henderson. As for Louis, he didn't know yet how to read! It's easy to imagine how current-day educationalists would respond to Stevenson's case: they'd immediately throw him in a special audio-visual class for slow-learners (a program massively funded by the federal government, of course), while at the same time prosecuting his parents under the truancy law for "gross neglect" and "intentional withholding" of their son from the public school system.

Fortunately, Stevenson grew up in a more humane environment. Whenever the family was away from Edinburgh on vacation, or Louis was too sick to attend school, Margaret and Thomas brought in tutors to help instruct their son. As a result, the boy's "reading disability" soon disappeared; in fact, he became an over-reader! How come the big turnaround? The answer clearly rests in the educational philosophy

Stevenson's parents put into practice. Margaret and Thomas always had Louis enrolled in private schools or learning from tutors. One tutor, described by RLS's mother as "a disappointment," either resigned or was dismissed—it's unclear which. Still, the incident illustrates the flexibility contained in a system that places primary responsibility for the child's education in the parents' hands. The child learns at an optimum pace; and parental pride, manifested in the form of loving prodding and careful selection of school and instructor, generally ensures that the pace is brisk.

As Louis grew older, literature increasingly became a passion with him. He sometimes skipped classes so he could walk through town or the countryside and write down his impressions. *On his own* Stevenson struggled to master his eventual trade. He realized there were no shortcuts to attaining excellence. The old farmer Gottesheim, in *Prince Otto*, reflects this belief of Stevenson:

"I have been fifty years upon this River Farm, and wrought in it, day in, day out; I have ploughed and sowed and reaped, and risen early, and waked late; and this is the upshot: that all these years it has supported me and my family; and been the best friend that ever I had, set aside my wife; and now, when my time comes, I leave it a better farm than when I found it. So it is, if a man works

hearty in the order of nature, he gets bread and he receives comfort, and whatever he touches breeds."<sup>2</sup>

Interestingly, Stevenson's father did not consider writing to be a suitable occupation for his son. Thomas tried to interest Louis in becoming an engineer like himself; when that failed, he made his son attend law school. RLS passed the bar, but he cared nothing for a career as a lawyer. A writer, young Stevenson proclaimed, he would be!

This decision, made at age 24, did not go over well with Thomas. Even so, Louis's parents aided him in his attempt to make a name for himself as a writer; however, the financial support was hardly generous. Compared to the welfare benefits our present government would bestow on Stevenson, it rated a pittance. But, the "budget plan" financial backing RLS received from his folks was one of the best things that happened to him. It made him strive all the harder to perfect his art and produce a best seller; for Louis was *accountable to people he loved*. As he wrote in his essay entitled "Beggars":

We should wipe two words from our vocabulary: gratitude and charity. In real life, help is given out of friendship, or it is not valued; it is received from the hand of friendship, or it is resented.<sup>3</sup>

Stevenson obviously felt obligated to turn his parents' assistance into a

winning investment. He wrote to his mother:

Money.—I am much obliged. That makes £180 now. This money irks me, one feels it more than when living at home. I think of all this money wasted in keeping up a structure that may never be worth it—all this good money sent after bad.<sup>4</sup>

One wonders how many similar letters of gratitude the local Welfare Office has ever received. Stevenson's best sellers were still a few years away, but he did manage to get many of his early works published. This meant he required less and less support from his parents. RLS's first published book was *An Inland Voyage*, written when he was 26. In it he firmly contended that one, over the long run, could not get something for nothing:

There is nothing but tit for tat in this world, though sometimes it be a little difficult to trace: for the scores are older than we ourselves, and there has never yet been a settling-day since things were. You get entertainment pretty much in proportion as you give.<sup>5</sup>

In 1879 when he was 29 Stevenson crossed the Atlantic and the United States to marry Fanny Van de Grift Osbourne. His travelmates during the trip happened to be emigrants whose Socialist bent and poor grasp of reality Stevenson thought little of. He recorded the emigrants' simplistic opinions in his book *The Amateur Emigrant*:

At bottom, as it seems to me, there is but one question in modern home politics, though it appears in many shapes, and that is the question of money; and but one political remedy, that the people should grow wiser and better. My workmen fellow-passengers were as impatient and dull of hearing on the second of these points as any member of Parliament; but they had some glimmerings of the first. They would not hear of improvement on their part, but wished the world made over again in a crack, so that they might remain improvident and idle and debauched, and yet enjoy the comfort and respect that should accompany the opposite virtues; and it was in this expectation, as far as I could see, that many of them were now on their way to America. But on the point of money they saw clearly enough that inland politics, as far as they were concerned, were reducible to the question of annual income; a question which should long ago have been settled by a revolution, they did not know how, and which they were about to settle for themselves, once more they knew not how, by crossing the Atlantic in a steamship of considerable tonnage.<sup>6</sup>

### Lasting Improvements

Unfortunately, we still see this same muddle-headedness today in our Congressmen and much of the public. As they say, what else is new? For clearly, the lesson mankind most frequently forgets is this: the only valuable and long-lasting improvements are those which are made for the individual *by the individual himself*. Stevenson lived by

this code, and devoted more than his fair share of time trying to impress it on others. He believed one of the lowest levels of moral degradation was that of an otherwise healthy person living off the labors of another.

Fanny Stevenson noted of her husband: "While he could see no royal road for others, the path for himself showed plainly enough before him, and it was his duty to swerve neither to the right nor the left. He believed he had no rights, only undeserved indulgences. He must not eat unearned bread, but must pay the world, in some fashion, for what it gave him—first, materially, then in kindness, sympathy, and love."

As RLS observed in his essay, "Letter to a Young Gentleman":

To give the public what they do not want, and yet to be supported: we have there a strange pretension, and yet not uncommon, above all with painters. The first duty in this world is for a man to pay his way; when that is quite accomplished, he may plunge into what eccentricity he likes; but emphatically not till then. Till then, he must pay assiduous court to the bourgeois who carries the purse. And if in the course of these capitulations he shall falsify his talent, it can never have been a strong one, and he will have preserved a better thing than talent—character.<sup>7</sup>

In 1883 Stevenson completed *Treasure Island*. The public in-

stantly fell in love with the story, and Louis had finally made his mark. Publishers vied for his works. RLS's literary output from this point on provided all the income his family required; he no longer needed any financial support from his parents.

### Personal Achievement

There are many reasons why Stevenson became the favorite author of many. That his literary talents were unsurpassable, and his works the product of genius, critics readily acknowledge. But, the main theme of his stories—the theme that through personal initiative and courage anyone can achieve his goal—seems to explain best why he captured the hearts of his readers. In *Treasure Island*, *Kidnapped*, and most of RLS's other novels we see the elements of danger and adventure uppermost. The hero usually has to overcome several misfortunes and death-defying experiences before capturing the grand prize: treasure, a wife, wealthy estate, or the like. Jim Hunter in *Treasure Island* and David Balfour in *Kidnapped* both beat long odds *on their own*, albeit with a touch of luck here and there.

The year 1886 saw publication of *The Strange Case of Dr. Jekyll and Mr. Hyde*, one of Stevenson's two best short stories. RLS wrote all 60,000 words of *Dr. Jekyll and Mr.*

*Hyde* in 6 days—and while seriously ill! During these 6 days, according to his wife, "he was suffering from continual hemorrhages, and was hardly allowed to speak, his conversation usually being carried on by means of a slate and pencil." Yet, Stevenson, with incredible determination, produced a masterpiece.

One year later, in 1887, Stevenson's essay "The Day After Tomorrow" was published. In it RLS denounces the Socialistic trends of his time, and speculates on what awaits future generations who put their faith in collectivism. The prophecies appearing in "The Day After Tomorrow" have come about so unerringly, Stevenson must be ranked alongside Tocqueville as one of the 19th Century's most outstanding possessors of prevision. At one point Stevenson states:

Once eliminate the fear of starvation, once eliminate or bound the hope of riches, and we shall see plenty of skulking and malingering. Society will then be something not wholly unlike a cotton plantation in the old days; with cheerful, careless, demoralised slaves, with elected overseers, and, instead of the planter, a chaotic popular assembly.<sup>8</sup>

The world we live in today could not be better described. In any occupation deadbeats now seem the rule rather than the exception. Save for the work force of a few bastions of free enterprise—notably Taiwan, Japan, and Korea—modern day job-

holders display proficiency and enthusiasm for but one task: punching in and out the time card.

In another section of "The Day After To-Morrow" Stevenson issues a warning similar to that contained in Frederic Bastiat's famous tract, "What Is Seen and What Is Not Seen":

The landlord has long shaken his head over the manufacturer; those who do business on land have lost all trust in the virtues of the shipowner; the professionals look askance upon retail traders and have even started their co-operative stores to ruin them; and from out the smoke-wreaths of Birmingham a finger has begun to write upon the wall the condemnation of the landlord. Thus, piece by piece, do we condemn each other, and yet not perceive the conclusion, that our whole estate is somewhat damnable. Thus, piece by piece, each acting against his neighbour, each sawing away the branch on which some other interest is seated, do we apply in detail our Socialistic remedies, and yet not perceive that we are all labouring together to bring in Socialism at large. A tendency so stupid and so selfish is like to prove invincible; and if Socialism be at all a practicable rule of life, there is every chance that our grandchildren will see the day and taste the pleasures of existence in something far liker an ant-heap than any previous polity.<sup>9</sup>

"The Day After To-Morrow" forms one of the crown jewels of classical Libertarian thought. But, what inspired Stevenson to write it? Some

clue is found in RLS's essay, "Crabbed Age and Youth," written when he was 25. In this essay Stevenson admits that he had once been "a red-hot Socialist with a panacea of my own." But, he proclaimed he wasn't ashamed of his past, for "if St. Paul had not been a very zealous Pharisee, he would have been a colder Christian." Stevenson concluded his discussion of why he changed from a Socialist into what he called a "Conservative" by stating:

I seem to see that my own scheme would not answer; and all the other schemes I ever heard propounded would depress some elements of goodness just as much as they encouraged others.<sup>10</sup>

### To the South Seas

Thomas Stevenson, who had been in declining health for years, died in 1887. Louis, to his own physical detriment, had stayed in Scotland and England much of this time so he could be near his father. With Thomas's death RLS no longer had to stay and endure the cold, damp British climate. A friend had suggested to Stevenson several years before that he move to the South Seas; the islands, the friend assured, would give him robustness and vitality. Louis finally acted on this wise counsel. After making many stops at various island groups, Stevenson and his family, in October, 1890, made their home in Samoa on the island of Upolu.

True to his friend's prediction, Stevenson's health dramatically improved. His daily routine at Vailima (RLS's estate) usually consisted of 10 hours devoted to literary projects, which were sandwiched around garden work and lengthy discussions with the Samoan chiefs. On top of this, it was not unusual for Stevenson to write upwards of 30 letters a day.

Critics maintain RLS's literary output during this period constitute his most maturely expressed and crafted works. Although it hardly seemed possible, Stevenson, now in his 40's, was improving as a writer! With the creation of *The Beach of Falesá*, a short story unrivalled in suspense and characterization, RLS reached the summit of literary perfection. In achieving this, however, Stevenson did not forget to promote his Individualist convictions. In one part of *The Beach of Falesá* he castigates those who cut corners in life:

They talk about looking for gold at the end of a rainbow; but if a man wants an employment that'll last him till he dies, let him start out on the soft-job hunt. There's meat and drink in it too, and beer and skittles, for you never hear of them starving, and rarely see them sober; and as for steady sport, cock-fighting isn't in the same county with it.<sup>11</sup>

Stevenson, in this quote, refers to the numerous beachcombers he had seen on his travels in the South

Seas. These freeloaders had both fascinated and sickened him with their moral shallowness. Stevenson's book, *The Ebb-Tide*, is a fictionalized account of the beachcombing scene; but, the major point RLS makes in *The Ebb-Tide*—that the end of the line or rope eventually greets those who duck honest work—falls in the non-fiction category.

### Political Activity

Stevenson, when he settled in Samoa, immediately immersed himself in local politics. At the time the Germans, English, and Americans were wrestling with one another for control over Samoa. Stevenson's loyalties, though, rested with the fourth faction—the natives! The white men, meanwhile, so bungled their home government's plans to make Samoa into a colony, one didn't know whether to laugh or cry. Stevenson certainly must have done both; he also did everything in his power to assist the Samoans in their battle to retain their liberty.

For example, he gave liberal sums of money to the Samoan chiefs to help finance the resistance; he wrote letters to *The Times* exposing the Great Powers' ludicrous machinations in Samoa; and finally, Tusitala (Teller of Tales), as the Samoans fondly called RLS, compiled all the grubby details into a book, *A Footnote to History*. As often happens

with people who vigorously advance the doctrines of liberty and self-determination, Stevenson found himself in hot water with the authorities. The High Commissioner in Fiji nearly charged him with sedition; fortunately, the Home Office in London interposed, thereby letting Stevenson off the hook.

That Stevenson's efforts on behalf of the Samoans were appreciated by them would be an understatement. In September, 1894 several chiefs were released from prison. These men did not at once return home; instead, they went straight to Vailima and began work on the road that led from Stevenson's house to the public way. Tusitala had helped them when they were in prison, and this is how they wished to repay him. Stevenson was extremely moved by this gesture, for as he described it, "it is road-making—the most fruitful cause (after taxes) of all rebellions in Samoa."<sup>12</sup> He was well aware of the unpopularity of road-making to Samoans.

In October the road was completed, and Stevenson thanked the chiefs in the most stirring speech of his life. RLS was to die suddenly two months later on December 3, 1894 of a stroke, an event which occasioned tremendous grief in Samoa and around the world; but, his untimely departure is not the thing to remember Stevenson by. Rather, we should recall his irrepressible spirit

by pondering the ringing words the Teller of Tales delivered to the road-workers.

And who is the true champion of Samoa? It is not the man who blackens his face, and cuts down trees, and kills pigs and wounded men. It is the man who makes roads, who plants food trees, who gathers harvests, and is a profitable servant before the Lord, using and improving that great talent that has been given him in trust. That is the brave soldier; that is the true champion; because all things in a country hang together like the links of the anchor cable, one by another: but the anchor itself is industry.<sup>13</sup> ☉

### —FOOTNOTES—

<sup>1</sup>Robert Louis Stevenson, "Letter to Trevor Haddon," *The Works of R. L. Stevenson*, Vol. 21 (New York: Charles Scribner's Sons, 1923), p. 123.

<sup>2</sup>*Ibid.*, *Prince Otto*, Vol. 5, p. 350.

<sup>3</sup>*Ibid.*, "Beggars," Vol. 12, p. 280.

<sup>4</sup>*Ibid.*, "Letter to Mrs. Thomas Stevenson," Vol. 20, pp. 224-25.

<sup>5</sup>*Ibid.*, *An Inland Voyage*, Vol. 1, p. 127.

<sup>6</sup>*Ibid.*, *The Amateur Emigrant*, Vol. 2, pp. 312-13.

<sup>7</sup>*Ibid.*, "Letter to a Young Gentleman," Vol. 12, p. 352.

<sup>8</sup>*Ibid.*, "The Day After To-Morrow," Vol. 4, p. 459.

<sup>9</sup>*Ibid.*, pp. 453-54.

<sup>10</sup>*Ibid.*, "Crabbed Age and Youth," Vol. 2, pp. 70-71.

<sup>11</sup>*Ibid.*, *The Beach of Falesá*, Vol. 15, p. 325.

<sup>12</sup>*Ibid.*, "Letter to Sidney Colvin," Vol. 23, p. 430.

<sup>13</sup>*Ibid.*, "Address of R. L. Stevenson to the Chiefs on the Opening of the Road of Gratitude, October, 1894," Vol. 23, p. 475.



"The Day After To-Morrow," a brilliant reading of human nature, accurately foretells the state of society under socialist rule. This somewhat unexpected, but welcome essay by one of the most beloved writers of all time was first published in the Contemporary Review, April, 1887.

Robert Louis Stevenson

## THE DAY AFTER TO-MORROW

HISTORY is much decried; it is a tissue of errors, we are told, no doubt correctly; and rival historians expose each other's blunders with gratification. Yet the worst historian has a clearer view of the period he studies than the best of us can hope to form of that in which we live. The obscurest epoch is to-day; and that for a thousand reasons of inchoate tendency, conflicting report, and sheer mass and multiplicity of experience; but chiefly, perhaps, by reason of an insidious shifting of landmarks.

Parties and ideas continually move, but not by measurable marches on a stable course; the political soil itself steals forth by imperceptible degrees, like a travelling glacier, carrying on its bosom not only political parties but their flag-posts and cantonments; so that what appears to be an eternal city founded on hills is but a flying island of Laputa. It is for this reason

in particular that we are all becoming Socialists without knowing it; by which I would not in the least refer to the acute case of Mr. Hyndman<sup>1</sup> and his horn-blowing supporters, sounding their trumps of a Sunday within the walls of our individualist Jericho, but to the stealthy change that has come over the spirit of Englishmen and English legislation.

A little while ago, and we were still for liberty; "Crowd a few more thousands on the bench of Government," we seemed to cry; "keep her head direct on liberty, and we cannot help but come to port." This is over; *laissez-faire* declines in favour; our legislation grows authoritative, grows philanthropical, bristles with new duties and new penalties, and casts a spawn of inspectors, who now

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<sup>1</sup>Editor's Note: Henry Mayers Hyndman (1842-1921) was the founder of British Socialism. He was considered proud and dominant in his manners, intellectually intolerant, and resentful of criticism or disagreement.

begin, note-book in hand, to darken the face of England. It may be right or wrong, we are not trying that; but one thing it is beyond doubt: it is Socialism in action, and the strange thing is that we scarcely know it.

Liberty has served us a long while, and it may be time to seek new altars. Like all other principles, she has been proved to be self-exclusive in the long run. She has taken wages besides (like all other virtues) and dutifully served Mammon; so that many things we were accustomed to admire as the benefits of freedom and common to all were truly benefits of wealth, and took their value from our neighbours' poverty. A few shocks of logic, a few disclosures (in the journalistic phrase) of what the freedom of manufacturers, landlords, or ship-owners may imply for operatives, tenants, or seamen, and we not un-naturally begin to turn to that other pole of hope, beneficent tyranny.

Freedom, to be desirable, involves kindness, wisdom, and all the virtues of the free; but the free man as we have seen him in action has been, as of yore, only the master of many helots; and the slaves are still ill fed, ill clad, ill taught, ill housed, insolently treated, and driven to their mines and workshops by the lash of famine.

So much, in other men's affairs, we have begun to see clearly; we have begun to despair of virtue in

these other men, and from our seat in Parliament begin to discharge upon them, thick as arrows, the host of our inspectors. The landlord has long shaken his head over the manufacturer; those who do business on land have lost all trust in the virtues of the shipowner; the professions look askance upon the retail traders and have even started their co-operative stores to ruin them; and from out the smoke-wreaths of Birmingham a finger has begun to write upon the wall the condemnation of the landlord. Thus, piece by piece, do we condemn each other, and yet not perceive the conclusion, that our whole estate is somewhat damnable.

Thus, piece by piece, each acting against his neighbour, each sawing away the branch on which some other interest is seated, do we apply in detail our Socialistic remedies, and yet not perceive that we are all labouring together to bring in Socialism at large.

A tendency so stupid and so selfish is like to prove invincible; and if Socialism be at all a practicable rule of life, there is every chance that our grandchildren will see the day and taste the pleasures of existence in something far liker an ant-heap than any previous human polity. And this not in the least because of the voice of Mr. Hyndman or the horns of his followers; but by the mere glacier movement of the politi-

cal soil, bearing forward on its bosom, apparently undisturbed, the proud camps of Whig and Tory.

If Mr. Hyndman were a man of keen humour, which is far from my conception of his character, he might rest from his troubling and look on: the walls of Jericho begin already to crumble and dissolve. That great servile war, the Armageddon of money and numbers, to which we looked forward when young, becomes more and more unlikely, and we may rather look to see a peaceable and blindfold evolution, the work of dull men immersed in political tactics and dead to political results.

### Parliaments on Trial

The principal scene of this comedy lies, of course, in the House of Commons; it is there, besides, that the details of this new evolution (if it proceed) will fall to be decided; so that the state of Parliament is not only diagnostic of the present but fatefully prophetic of the future. Well, we all know what Parliament is, and we are all ashamed of it. We may pardon it some faults, indeed, on the ground of Irish obstruction—a bitter trial, which it supports with notable good-humour. But the excuse is merely local; it cannot apply to similar bodies in America and France; and what are we to say of these? President Cleveland's letter may serve as a picture

of the one; a glance at almost any paper will convince us of the weakness of the other.

Decay appears to have seized on the organ of popular government in every land; and this just at the moment when we begin to bring to it, as to an oracle of justice, the whole skein of our private affairs to be unravelled, and ask it, like a new Messiah, to take upon itself our frailties and play for us the part that should be played by our own virtues. For that, in few words, is the case. We cannot trust ourselves to behave with decency; we cannot trust our consciences; and the remedy proposed is to elect a round number of our neighbours, pretty much at random, and say to these: "Be ye our conscience; make laws so wise, and continue from year to year to administer them so wisely, that they shall save us from ourselves and make us righteous and happy, world without end. Amen." And who can look twice at the British Parliament and then seriously bring it such a task?

I am not advancing this as an argument against Socialism: once again, nothing is further from my mind. There are great truths in Socialism, or no one, not even Mr. Hyndman, would be found to hold it; and if it came, and did one tenth part of what it offers, I for one should make it welcome. But if it is to come, we may as well have some

notion of what it will be like; and the first thing to grasp is that our new polity will be designed and administered (to put it courteously) with something short of inspiration. It will be made, or will grow, in a human parliament; and the one thing that will not very hugely change is human nature. The Anarchists think otherwise, from which it is only plain that they have not carried to the study of history the lamp of human sympathy.

Given, then, our new polity, with its new waggonload of laws, what head-marks must we look for in the life? We chafe a good deal at that excellent thing, the income-tax, because it brings into our affairs the prying fingers, and exposes us to the tart words, of the official. The official, in all degrees, is already something of a terror to many of us. I would not willingly have to do with even a police constable in any other spirit than that of kindness. I still remember in my dreams the eyeglass of a certain *attaché* at a certain embassy—an eye-glass that was a standing indignity to all on whom it looked; and my most disagreeable remembrance is of a bracing, Republican postman in the city of San Francisco. I lived in that city among working-folk, and what my neighbours accepted at the postman's hands—nay, what I took from him myself—it is still distasteful to recall.

The bourgeois, residing in the upper parts of society, has but few opportunities of tasting this peculiar bowl; but about the income-tax, as I have said, or perhaps about a patent, or in the halls of an embassy at the hands of my friend of the eyeglass, he occasionally sets his lips to it; and he may thus imagine (if he has that faculty of imagination, without which most faculties are void) how it tastes to his poorer neighbours, who must drain it to the dregs. In every contact with authority, with their employer, with the police, with the School Board officer, in the hospital, or in the workhouse, they have equally the occasion to appreciate the light-hearted civility of the man in office; and as an experimentalist in several out-of-the-way provinces of life, I may say it has but to be felt to be appreciated.

### A Golden Age of Officials

Well, this golden age of which we are speaking will be the golden age of officials. In all our concern it will be their beloved duty to meddle, with what tact, with what obliging words, analogy will aid us to imagine. It is likely these gentlemen will be periodically elected; they will therefore have their turn of being underneath, which does not always sweeten men's conditions. The laws they will have to administer will be no clearer than those we know today, and the body which is to regu-

late their administration no wiser than the British Parliament. So that upon all hands we may look for a form of servitude most galling to the blood—servitude to many and changing masters—and for all the slights that accompany the rule of Jack in office.

And if the Socialistic programme be carried out with the least fulness, we shall have lost a thing in most respects not much to be regretted, but, as a moderator of oppression, a thing nearly invaluable—the newspaper. For the independent journal is a creature of capital and competition; it stands and falls with millionaires and railway-bonds and all the abuses and glories of to-day; and as soon as the State has fairly taken its bent to authority and philanthropy, and laid the least touch on private property, the days of the independent journal are numbered. State railways may be good things, and so may State bakeries; but a State newspaper will never be a very trenchant critic of the State officials.

But again, these officials would have no sinecure. Crime would perhaps be less, for some of the motives of crime we may suppose would pass away. But if Socialism were carried out with any fulness, there would be more contraventions. We see already new sins springing up like mustard—School Board sins, factory sins, Merchant Shipping Act

sins—none of which I would be thought to except against in particular, but all of which, taken together, show us that Socialism can be a hard master even in the beginning. If it go on to such heights as we hear proposed and lauded, if it come actually to its ideal of the ant-heap, ruled with iron justice, the number of new contraventions will be out of all proportions multiplied.

### **A Society of Ants**

Take the case of work alone. Man is an idle animal. He is at least as intelligent as the ant; but generations of advisers have in vain recommended him the ant's example. Of those who are found truly indefatigable in business, some are misers; some are the practisers of delightful industries, like gardening; some are students, artists, inventors, or discoverers, men lured forward by successive hopes; and the rest are those who lived by games of skill or hazard—financiers, billiard-players, gamblers, and the like. But in unloved toils, even under the prick of necessity, no man is continually sedulous.

Once eliminate the fear of starvation, once eliminate or bound the hope of riches, and we shall see plenty of skulking and malingering. Society will then be something not wholly unlike a cotton plantation in the old days; with cheerful, careless, demoralised slaves, with elected

overseers, and, instead of the planter, a chaotic popular assembly. If the blood be purposeful and the soil strong, such a plantation may succeed, and be, indeed, a busy ant-heap, with full granaries and long hours of leisure. But even then I think the whip will be in the overseer's hand, and not in vain. For, when it comes to be a question of each man doing his own share or the rest doing more, prettiness of sentiment will be forgotten.

To dock the skulker's food is not enough; many will rather eat haws and starve on petty pilferings than put their shoulder to the wheel for one hour daily. For such as these, then, the whip will be in the overseer's hand; and his own sense of justice, and the superintendence of a chaotic popular assembly will be the only checks on its employment. Now, you may be an industrious man and a good citizen, and yet not love, nor yet be loved by Dr. Fell the inspector. It is admitted by private soldiers that the disfavour of a sergeant is an evil not to be combated; offend the sergeant, they say, and in a brief while you will either be disgraced or have deserted. And the sergeant can no longer appeal to the lash. But if these things go on, we shall see, or our sons shall see, what it is to have offended an inspector.

This for the unfortunate. But with the fortunate also, even those whom

the inspector loves, it may not be altogether well. It is concluded that in such a state of society, supposing it to be financially sound, the level of comfort will be high. It does not follow: there are strange depths of idleness in man, a too-easily-got sufficiency, as in the case of the sago-eaters, often quenching the desire for all besides; and it is possible that the men of the richest ant-heaps may sink even into squalor. But suppose they do not; suppose our tricky instrument of human nature, when we play upon it this new tune, should respond kindly; suppose no one to be damped and none exasperated by the new conditions, the whole enterprise to be financially sound—a vaulting supposition—and all the inhabitants to dwell together in a golden mean of comfort: we have yet to ask ourselves if this be what man desire, or if it be what man will even deign to accept for a continuance.

It is certain that man loves to eat; it is not certain that he loves that only or that best. He is supposed to love comfort; it is not a love, at least, that he is faithful to. He is supposed to love happiness; it is my contention that he rather loves excitement. Danger, enterprise, hope, the novel, the aleatory, are dearer to man than regular meals. He does not think so when he is hungry, but he thinks so again as soon as he is fed; and on the hypothesis of a successful ant-heap,

he would never go hungry. It would be always after dinner in that society, as, in the land of the Lotus-eaters, it was always afternoon; and food, which, when we have it not, seems all-important, drops in our esteem, as soon as we have it, to a mere prerequisite of living.

### Incentives Needed

That for which man lives is not the same thing for all individuals nor in all ages; yet it has a common base; what he seeks and what he must have is that which will seize and hold his attention. Regular meals and weather-proof lodgings will not do this long. Play in its wide sense, as the artificial induction of sensation, including all games and all arts, will, indeed, go far to keep him conscious of himself; but in the end he wearies for realities. Study or experiment, to some rare natures, is the unbroken pastime of a life. These are enviable natures; people shut in the house by sickness often bitterly envy them; but the commoner man cannot continue to exist upon such altitudes: his feet itch for physical adventure; his blood boils for physical dangers, pleasures, and triumphs; his fancy, the looker after new things, cannot continue to look for them in books and crucibles, but must seek them on the breathing stage of life.

Pinches, buffets, the glow of hope, the shock of disappointment, furious

contention with obstacles: these are the true elixir for all vital spirits, these are what they seek alike in their romantic enterprises and their unromantic dissipations. When they are taken in some pinch closer than the common, they cry, "Catch me here again!" and sure enough you catch them there again—perhaps before the week is out. It is as old as *Robinson Crusoe*; as old as man. Our race has not been strained for all these ages through that sieve of dangers that we call Natural Selection, to sit down with patience in the tedium of safety; the voices of its fathers call it forth.

Already in our society as it exists, the bourgeois is too much cottoned about for any zest in living; he sits in his parlour out of reach of any danger, often out of reach of any vicissitudes but one of health; and there he yawns. If the people in the next villa took pot-shots at him, he might be killed indeed, but so long as he escaped he would find his blood oxygenated and his views of the world brighter. If Mr. Mallock,<sup>2</sup> on his way to the publishers, should have his skirts pinned to the wall by a javelin, it would not occur to him—at least for several hours—to ask if life were worth living; and if such peril were a daily matter, he

<sup>2</sup>Editor's Note: William Hurrell Mallock, 1849-1923, was an English theological and sociological writer whose works included *Is Life Worth Living?*

would ask it nevermore; he would have other things to think about, he would be living indeed—not lying in a box with cotton, safe, but immeasurably dull.

### The Glory of Contest

The aleatory, whether it touch life, or fortune, or renown—whether we explore Africa or only toss for halfpence—that is what I conceive men to love best, and that is what we are seeking to exclude from men's existences. Of all forms of the aleatory, that which most commonly attends our workingmen—the danger of misery from want of work—is the least inspiriting: it does not whip the blood, it does not evoke the glory of contest; it is tragic, but it is passive; and yet, in so far as it is aleatory, and a peril sensibly touching them, it does truly season the men's lives. Of those who fail, I do not speak—despair should be sacred; but to those who even modestly succeed, the changes of their life bring interest: a job found, a shilling saved, a dainty earned, all these are wells of pleasure springing afresh for the successful poor; and it is not from these but from the villadweller that we hear complaints of the unworthiness of life.

Much, then, as the average of the proletariat would gain in this new state of life, they would also lose a certain something, which would not be missed in the beginning, but

would be missed progressively, and progressively lamented. Soon there would be a looking back: there would be tales of the old world humming in young men's ears, tales of the tramp and the pedlar, and the hopeful emigrant. And in the stalled life of the successful ant-heap—with its regular meals, regular duties, regular pleasures, an even course of life, and fear excluded—the vicissitudes, delights, and havens of to-day will seem of epic breadth.

This may seem a shallow observation; but the springs by which men are moved lie much on the surface. Bread, I believe, has always been considered first, but the circus comes close upon its heels. Bread we suppose to be given amply; the cry for circuses will be the louder, and if the life of our descendants be such as we have conceived, there are two beloved pleasures on which they will be likely to fall back: the pleasures of intrigue and of sedition.

In all this I have supposed the ant-heap to be financially sound. I am no economist, only a writer of fiction; but even as such, I know one thing that bears on the economic question—I know the imperfection of man's faculty for business. The Anarchists, who count some rugged elements of common-sense among what seem to me their tragic errors, have said upon this matter all that I could wish to say, and condemned



beforehand great economical polities. So far it is obvious that they are right; they may be right also in predicting a period of communal independence, and they may even be right in thinking that desirable. But the rise of communes is none the less the end of economic equality, just when we were told it was beginning.


### **Communes at War**

Communes will not be all equal in extent, nor in quality of soil, nor in growth of population; nor will the surplus produce of all be equally marketable. It will be the old story of competing interests, only with a new unit; and, as it appears to me, a new, inevitable danger. For the merchant and the manufacturer, in this new world, will be a sovereign commune; it is a sovereign power that will see its crops undersold and its manufactures worsted in the market. And all the more dangerous that the sovereign power should be small. Great powers are slow to stir; national affronts, even with the aid of newspapers, filter slowly into popular consciousness; national losses are so unequally shared that one part of the population will be counting its gains while another sits by a cold hearth. But in the sovereign commune all will be centralised and sensitive.

When jealousy springs up, when (let us say) the commune of Poole has overreached the commune of

Dorchester, irritation will run like quicksilver throughout the body politic; each man in Dorchester will have to suffer directly in his diet and his dress; even the secretary, who drafts the official correspondence, will sit down to his task embittered, as a man who has dined ill and may expect to dine worse; and thus a business difference between communes will take on much the same colour as a dispute between diggers in the lawless West, and will lead as directly to the arbitrament of blows.

So that the establishment of the communal system will not only reintroduce all the injustices and heartburnings of economic inequality, but will, in all human likelihood, inaugurate a world of hedge-row warfare. Dorchester will march on Poole, Sherborne on Dorchester, Wimborne on both; the waggons will be fired on as they follow the highway, the trains wrecked on the lines, the ploughman will go armed into the field of tillage; and if we have not a return of ballad literature, the local press at least will celebrate in a high vein the victory of Cerne Abbas or the reverse of Toller Porcorum.

At least this will not be dull; when I was younger, I could have welcomed such a world with relief; but it is the New-Old with a vengeance, and irresistibly suggests the growth of military powers and the foundation of new empires. 

# The SUCCESS of failure

WITHOUT FAILURE we'd be in big trouble.

"Learning from our mistakes" is far more than a worn cliché, it is the gateway to an enormous truth about our entire economic system. Only by allowing our failures to run their due course may we ever chance to come by better ways of providing for our desires.

So much of the discussion of "failure" has turned to the mere exchanging of shibboleths. Everyday discourse is loaded with paeans to braving the chances for failure, accepting great challenges, the noble nature of "sink or swim," and warnings that "nothing ventured, nothing

gained." There seems to be an instantaneous acceptance that individuals must, in their private affairs, be willing to risk something to make a showing in life. Not many would hedge on the idea that, if you take away the chance to flop, you simultaneously withdraw the opportunity to soar.

Yet, in extending this simple morality to larger spheres, there looms a dichotomy. While the challenge of life's game is hearty for the individual soul, the goal of social institutions is to demolish all possible exceptions to a pre-programmed "success." Security, the professed aim of scores of government programs, seeks to place a prohibition on all deviations from the politically-determined "success norm."

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Now, from the individual's perspective, security is a decent sort of thing to strive for and a happy one to achieve. People who are far from being millionaires take reasonable measures to enhance their own security by purchasing insurance, getting an education (read: income security), joining a union, working on a contractual basis, getting married and, let's not forget, having children (could we call this a form of genetic social security?).

The distinctive characteristics of "private" security are that a person acts either to "pool" his risks voluntarily with others, as in buying insurance, or he takes positive action to lessen the uncertainty surrounding his circumstances, as in gaining an education. "Public" security will be pursued from a diametrically different angle: simply shifting the burden of failure from one group to another.

### **Forcibly Shifting the Burden**

If we look at any government bureaucracy we can see the nature of the problem. When the government establishes "job security" via tenure rules (accompanied by cost-of-living escalators) the government is not "pooling" the risks of the workers nor is it taking positive action to reduce the uncertainty confronting the work force. It is forcibly transferring risks of failure from one group (government workers) to

another group (private sector workers).

Now, from a moral view, this is a nasty break for the latter; the so-called civil servants are neither very servile nor very civil for inflicting this injustice. But this is only the visible damage of the deal. The most pernicious effects are to be found in the economic results of this redistribution of risk.

Just as a man can only find success by winding his way through—and past—failure, an economic system must depend on its failings to signal its path of success. This process is certainly more important for our system as a whole for, whereas a man may follow the examples of those who have gone before, a system has no model to emulate. It must break its ground in darkness.

Economic failings include many distasteful possibilities: people getting fired or laid-off, companies or individuals going bankrupt, product lines being discontinued, capital lying idle, stock equities falling in value, ad infinitum. All such disturbances are the result of some miscalculation in the plans of the economy's agents. People, businesses and governments cannot foresee the future, and so every unexpected change in our circumstances—even if it is, on the whole, a very favorable one—will cause some people to end up in less fortunate conditions than they had anticipated.

### Change May Be Painful

Even when our society eagerly greeted the innovation of the automobile, for example, there were the poor blacksmiths being thrown out of work. And, in a recent movie, Woody Allen reminisces about an entire family that was wiped out by the introduction of automatic pin-setters. And, just as we pray for the cure for cancer, we know that, when it comes, we will see some bad economic news for the cobalt radiation industry.

These economic "failings" are tremendously important clues that, far from being swept under the rug, should be utilized as efficiently as possible for the value they contain. This value is both informational and motivational. It is the economic failure that allows us to see our mistakes and motivates us to correct them.

Failures are the "symptoms" of the economic organism. As the body of any living thing locates and cures its maladies by responding to its itches, aches and throbs, so the economy must behave to adjust to its unemployments, malinvestments and inefficiencies. Professor Axel Leijonhufvud discusses this organismic parallel by citing a biologist's description of a biological system:

An *organism* is an integrated unit of structure and functions. In an *organism*, all *molecules* have to work in harmony. Each *molecule* has to know what the

other *molecules* are doing. Each *molecule* must be able to receive messages and must be disciplined enough to obey orders. How has the *organism* solved the problem of intermolecular communication?

Professor Leijonhufvud suggests that, in the above passage, we simply substitute the word "economy" for "organism" and the word "transactors" for "molecules." Re-read the passage this way.

Thus, do we arrive at the essence of the co-ordination problem.

### Adjust or Perish

If a living organism attempted to ignore certain biochemical signals it would soon degenerate into multitudinous plagues and perish. And when an economic system fails, as Prof. Leijonhufvud is fond of saying, to "mend its ways" in response to signs of ill health, it will likewise degenerate into economic anemia and witness economic diseases immensely greater in magnitude than the initial symptoms.

The ease with which our society has let this helpful analogy slip past is demonstrated by the single statistic that, for all of 1977, for all of the federal government, just 223 workers were fired. Out of two million federal job-holders, that represents about one out of every ten thousand employees. You'd probably have a better chance of being assaulted by a lightning bolt in Palm Springs or of

receiving Sophia Loren's phone number from Computer Date.

More than the lack of individual failure in government is the absence of any way for departments and agencies of government to fail. When a public bureaucracy falls short of some assigned goal it is not driven to a cheap merger or bankruptcy as in the "ruthless" competition of the market place. Indeed, gross failures on the part of particular bureaucracies often send out enormously beneficial signals for the individual bureaucrats.

Witness the incredible failure of the Federal Energy Administration. Founded as a "temporary" agency to cushion the effects of the Arab oil embargo in 1973-74, the Agency was given the goal of Project Independence. The idea was to lessen oil imports over the years until, by 1985, we were to be completely—and patriotically—self-sufficient in energy.

The FEA went about this goal in rather bizarre fashion. It promptly slapped a "crude-oil equalization" tax on domestic producers, and used the resultant revenues to subsidize oil imports. But, let us not quibble over methodology, let us simply look at the results. When the FEA was born in 1973, the U.S. imported  $\frac{1}{3}$  of its oil; today we import  $\frac{1}{2}$ .

By 1976 the President's Task Force on FEA Regulations was led to conclude:

FEA regulations, as they now exist, confer few if any benefits upon the public. . . . In return for this lack of benefits and sense of false security, the American businessman, the taxpayer, and the petroleum consumer, must incur higher costs than might otherwise be the case. Indeed, continuation of the present regulatory mechanism will result in long-run inefficiencies for the American economy.

Failure may not come in a more plainly marked wrapper than the Federal Energy Administration. So how does the government cleanse us of the FEA burden? By exponential expansion!

### **Bureaucratic Growth**

In 1977 the FEA opened its new offices with "Department of Energy" on the marquee. It has now attained full cabinet rank and boasts 20,000 full-timers "economizing" our energy with a ten billion dollar budget. Apart from its institutional successes, FEA aficionados have scored well. The Agency's first director went on to become Secretary of the Treasury, the second has gone on to an esteemed academic post, and the third and present director, now a cabinet member, sits at the right hand of our President.

In contrast to the artificial serenity of the public sphere, there were over 200,000 bankruptcies, individual and corporate, in 1977 and several millions of workers were forced to switch jobs in the private sector.

As much as we would like to minimize such disruptions and failures (particularly the bankruptcy figures which are influenced by laws extremely generous to defaulters), we do not want to eliminate real errors of judgment and competence by "assuming them away." We want to "bleed" our system, purge the failing, and find a better way tomorrow.

Government bureaucracy has delivered a Brave New World to its protected clients: do not fear the future for it contains no failure. The job security of the public sector precludes any adjustment process whereby we purge the bad and try something new. "Government without failure" can only bring about "institutions without success."

Upon reflection, when *was* the last time that a government bureaucracy was closed and cleared away due to its failing to meet the needs of the consumers? The private market place displays a veritable barrage of such leapfrogging, with bankruptcies, mergers, corporate takeovers and shake-ups, proxy fights, "inside information" and all the "ravages" of "dog-eat-dog" competition. Yet it is this constant, relentless panic to discover today's failure and to gobble it up at a bargain price that promotes an incessant tendency toward most efficiently reaching for the consumer's dollar.

### The Test at the Market

To illustrate the respective mechanisms of the market and the bureaucracy, it is interesting to review the *Wall Street Journal* on any given day. Look at the incredible information just on the stock market alone. Here we have the relative values, as judged by millions of traders, of the earning power of thousands of companies. A mistake (or unsolicited disaster) accruing to any of these firms reflects itself to the entire market in the price of the stock in a matter of—amazingly—seconds. No government study. No environmental impact statement. No six-year lawsuit. A private company can flunk the market test in seconds.

Look around the rest of the *Journal*. Articles on quarterly earnings reports, new product lines, management personnel shuffles, changes in corporate profit strategies, in technologies, in marketing techniques. All are based on the quest of private persons to meet the challenge of market competition, to best deliver the stockholders the highest sales at the lowest cost. In other words, to avoid flunking that market test. And here there is no room for pontification. Speech writers don't produce profit statements—accountants do.

The state has no room, no need, and no desire for a competitive test of its economic programs. Its moti-

vation is to gain *political* efficiency, and this brand of activity takes on characteristics quite distinct from those required for *economic* efficiency. The appeal of the market solution is that, in the famous words of Adam Smith, each individual "neither intends to promote the public interest, nor knows how much he is promoting it . . . he intends only his own gain and he is in this . . . led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it."

### **The Political Test**

Conversely, the drive for *political* efficiency can result in the most wasteful and fraudulent of activities and may foster the emergence of regimented, bureaucratic systems which are totally unresponsive to the public and which suffocate our spontaneous forces for creativity. As Professor Milton Friedman comments on the inverse of Smith's economic "invisible hand":

The invisible hand in politics is as potent a force for harm as the invisible hand in economics is for good. In politics, men who intend only to promote the public interest, as they conceive it, are "led by an invisible hand to promote an end that was no part of their intention." They become front-men for special interests they would never knowingly serve.

They end up sacrificing the public interest to the special interest, the interest of consumers to that of producers, the interest of the masses who never go to college to that of those who attend college, the interest of the poor working-class saddled with employment taxes to that of the middle class who get disproportionate benefits from social security, and so on down the line.

The rewards of success can only be fully effective where the risks from failure are real. Success and failure must be two sides of an indivisible coin. And it is only when we toss this coin fairly, without precluding the chance it may come up tails, can we gain the knowledge to steer ourselves toward a better way of doing things. The game of life is, naturally, a trial and error process, and only by allowing ourselves to face our failings and to correct our bearings will we move progressively.

### **How Protectionism Betrays and Destroys the Individual**

Some of our best emotions nudge us to fudge. We want to do whatever "must" be done to cover up the downside risks of contemporary society. But if we are loyal to these "best emotions" when it comes to our public institutions we may well betray our "best judgment." There is a most compelling argument against such state action to directly outlaw social problems. For by such "protectionism" we seal ourselves off from

the phenomenal dynamism of individual initiative that will, when all is said and done, still be the attribute of man that brings home the bread. As F. A. Hayek reveals:

To the ambitious and impatient reformer, filled with indignation at a particular evil, nothing short of the complete abolition of that evil by the quickest and most direct means will seem adequate. If every person now suffering from unemployment, ill health, or inadequate provision for his old age is at once to be relieved of his cares, nothing short of an all-comprehensive and compulsory scheme will suffice. But if, in our impatience to solve such problems immediately, we give government exclusive and monopolistic powers, we may find that we have been short-sighted. If the quickest way to a now visible solution becomes the only permissible one and all alternative experimentation is precluded, and if what now seems the

best method of satisfying a need is made the sole starting point for all future development, we may perhaps reach our present goal sooner, but we shall probably at the same time prevent the emergence of more effective alternative solutions. It is often those who are most anxious to use our existing knowledge and powers to the full that do most to impair the future growth of knowledge by the methods they use. The controlled single-channel development toward which impatience and administrative convenience have frequently inclined the reformer and which, especially in the field of social insurance, has become characteristic of the modern welfare state may well become the chief obstacle to future improvement.

At bottom, the price of synthetic success today will surely be the loss of opportunity for authentic success tomorrow. ⊕

### Legislated Security Is Bondage

THERE has never yet come down from any government any substantial improvement in the conditions of the masses of the people, unless it found its own initiative in the mind, the heart, and the courage of the people. Take from the people of our country the source of initiative and the opportunity to aspire and to struggle in order that that aspiration may become a reality, and though you couch your action in any sympathetic terms, it will fail of its purpose and be the undoing of the vital forces that go to make up a virile people. Look over all the world where you will, and see those governments where the features of compulsory benevolence have been established, and you will find the initiative taken from the hearts of the people.

IDEAS ON



LIBERTY



# Time for Truth— Time to Act

*Item:* In 1977 Congress voted to increase Social Security payroll taxes. In 1978 this very same Congress seeks to roll back at least part of the increase.

*Item:* The Interstate Commerce Commission had on its books about 400,000 tariff schedules and 40 trillion rates telling the transportation industry what it might charge customers.

*Item:* A listing of all the new U.S. rules and regulations set in 1976 over business required 57,027 pages of fine print in the *Federal Register*.

*Item:* From 1955 to 1965 the money supply had grown at an annual rate of 2½ per cent. Since 1965 the money growth rate has averaged almost six per cent. The cost of liv-

ing in each period, as measured by the Consumer Price Index, roughly rose apace.

*Item:* Government has long been usurping funds needed for private investment. Such investment in the U.S. in recent years, as a percentage of GNP, was the lowest of all industrialized nations, including the United Kingdom. At the same time approximately 70 per cent of the long-term capital funds available in private money markets was being borrowed by the Federal government and 80 per cent by government at all levels.

And so on ad infinitum.

This situation of government-gone-haywire—devastatingly detailed in William E. Simon's remarkable new book, *A Time for Truth* (Reader's Digest Press [McGraw-Hill Book Company, 1221

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Dr. Peterson is the Burrows T. Lundy Professor of Philosophy of Business at Campbell College in Bules Creek, North Carolina.

Avenue of the Americas, New York, N.Y. 10036] \$12.50)—brings to mind the observation of Thomas Paine that “government, even in its best state, is but a necessary evil; in its worst state, an intolerable one.”

A time for truth? Indeed, *and* a time to act. Former Treasury Secretary Simon, now president of the John M. Olin Foundation, chairman of the National Energy Foundation, vice chairman of Invest-in-America National Council, and a trustee of Lafayette College and Georgetown University, tells why he came to write of America’s descent into what Mises called “planned chaos”:

It is my intention in this book to communicate the wider perspective that I acquired so traumatically in Washington . . . the reason for discussing economic issues is not to inspire a national passion for bookkeeping, but to inspire a national awareness of the connection between economic and political freedom. The connection is real and unbreakable. To lose one is to lose the other. In America we are losing both in the wake of the expanding state.

The dual question posed by Mr. Simon is: How did we get into this mess, and how do we get out?

He’s in a good position to answer the question. William Simon saw government at the highest policy-making level from the inside. He served as Secretary of the Treasury from 1974 to 1977. He also served as Deputy Secretary of the Treasury,

1973-74, and as chairman of the Economic Policy Board, the Federal Energy Office and the East-West Foreign Trade Board.

So, how does government act? Well, from this “Inside Washington” view of things, consider how government responded to the energy crisis, in particular to the Arab oil embargo in the wake of the Yom Kippur War in October of 1973. Suddenly America was cut off from Arabian oil. The crisis was real.

Typically, the government didn’t act as much as it reacted. Congress demanded action. A centralized oil allocation process was quickly put together (Mr. Simon terms it a “disaster”). Oil price controls, already in place under President Nixon’s “New Economic Policy” of generalized wage-price controls, were tightened (thereby compounding the crisis).

As head of a newly created Energy Policy Office, President Nixon appointed Colorado Governor John Love. But Governor Love on a weekend early in the crisis decided to go quail hunting with Interior Secretary Rogers Morton. Washington flipped. How could an energy czar attend to his pleasure when America was in dire straits of fast running out of oil? President Nixon dropped Governor Love like a hot potato and named William Simon as the new energy czar.

Mr. Simon's free enterprise proclivities were manifest all right, but like King Canute he was unable to stop the interventionist tide. For example, in the face of media and political pressure for rationing, the President ordered rationing stamps printed and held in reserve. "Maybe that will shut them up," he told his energy czar.

But it didn't shut them up. Pressure increased for formal rationing, which the price-controlled oil-starved oil companies and gas stations practically resorted to anyway, pretty much without any specific government directive (though some states such as Oregon directed that motorists with even-numbered plates shop for gas on certain days of the week, and motorists with odd-numbered plates shop on other days).

Gas lines lengthened into two, three, four-hour waits. The centralized allocation system "kept falling apart." Parts of New Jersey suddenly went dry, for example, while other parts had plenty of gas. Palm Beach ran out of gas, while stations ten miles away were well supplied. Tempers frayed across the nation, while domestic supplies and exploration lagged (and lag still) in the face of price lids and environmentalist harassment, which continue to this hour.

In a domestic interlude, Mr. Simon tells how his wife Carol

reacted to public criticism during the Arab embargo. She did not want to be recognized. She stopped using charge plates that carried the name William E. Simon. She skulked around in a shawl and dark glasses. One night when Mr. Simon came home late, Carol Simon, normally a loving and cheerful woman, sprang at him and shouted: "Do you know how long I waited in the line? You have to do something!" Energy czar Simon groaned, "Et tu, Brute?"

Mr. Simon admits that he was "a rotten bureaucrat," that he played the philosophically preposterous role of "William E. Simon, Invisible Hand," that Congress displayed "extraordinary irresponsibility" in serving as supposedly selfless all-wise economic planners.


He holds that today there is precious little public awareness of our flight toward destruction, toward what Mr. Simon calls "the New Despotism."

Is there a way out?


Yes. A widespread reaffirmation of freedom and free enterprise is the Simon way, i.e., a return to the religion of human liberty, a broad-based adherence to a set of guiding principles. Mr. Simon lays down those principles, one after the other:

- The overriding principle to be revived in American political life is that which sets individual liberty as the highest political value.

- There must be a conscious philosophical prejudice against any intervention by the state into our lives, for by definition such intervention abridges liberty.
  - The principle of "no taxation without representation" must again become a rallying cry of Americans. Only Congress represents American voters, and the process of transferring regulatory powers—which are a hidden power to tax—to unelected, uncontrollable, and unfireable bureaucrats must stop.
  - A critical principle which must be communicated forcefully to the American public is the inexorable interdependence of economic wealth and political liberty.
  - Bureaucracies themselves should be assumed to be noxious, authoritarian parasites on society, with a tendency to augment their own size and power and to cultivate a parasitical clientele in all classes of society.
  - Productivity and the growth of productivity must be the *first* economic consideration at all times, not the last. That is the source of technological innovation, jobs, and wealth.
  - This means that profits needed for investment must be respected as a great social blessing, not as a social evil, and that envy of the "rich" cannot be allowed to destroy a powerful economic system.
  - The concept that "wealth is theft" must be repudiated.
  - Conversely, the concept that the absence of money implies some sort of virtue should be repudiated.
  - Similarly, the view that government is virtuous and producers are evil is a piece of folly, and a nation which allows itself to be tacitly guided by these illusions must lose both its liberty and its wealth.
  - The "ethics" of egalitarianism must be repudiated. Achievers must not be penalized or parasites rewarded if we aspire to a healthy, productive, and ethical society.
  - The American citizen must be made aware that today a relatively small group of people is proclaiming its purposes to be the will of the People. That elitist approach to government must be repudiated.
- With a preface by Milton Friedman and a foreword by F. A. Hayek—both Nobel Laureates—this book is a roadmap charting a route away from tax-and-tax, spend-and-spend, cradle-to-the-grave *insecurity*. William E. Simon points the way to a critically needed American Renaissance. 



# TWO PHILOSOPHIES OF MONEY



S. Herbert Frankel's book, *Two Philosophies of Money: The Conflict of Trust and Authority* (St. Martin's Press, 175 Fifth Avenue, New York, N.Y., 10010, 164 pp., \$14.95), tells it all in the subtitle. It sounds simple, but the "all" it tells about involves nothing less than the whole subject of what is and what is not inalienable about individual human rights. This means that Professor Frankel is forced, willy nilly, into transcending ordinary economic categories. He deals with money as a symbol of deeper psychological and social attitudes. The nature of money is dependent on the nature of man, and at a time when men, over most of the earth's surface, aren't sure they have any rights of ownership at all, it is hardly cause for wonder that money, as a medium of facilitating exchanges of ownership, is subject to the most cavalier whims of politicians on the make.

Professor Frankel, in his intro-

duction, quotes Henry Simons, who wrote some forty years ago that "we cannot get along . . . without some moral sanctions and mandates which politicians must obey in matters of finance." Since Simons' time the "moral sanctions and mandates" that were once taken for granted throughout Christendom have, along with the gold standard, been lightly tossed aside. But the attitude of the politicians toward money has been merely symptomatic of the change in the relationship of western peoples to government itself. If people really held to what Leonard Read calls the "freedom philosophy" (private property, free trade and carefully limited government) our money troubles would be largely confined to the difficulty of earning it, not with its integrity as a commercial lubricant and dependable store of value.

Our nineteenth-century forebears might have indulged in arguments

about the relative value of gold and silver as backing for the printed forms of money, but they were generally agreed on the proposition that something hard, tangible and desirable in itself should be available to people if they were to transcend the awkward limitations of a barter economy. Remembering the days of Victorian stability, it is easy to say that we should go back to a metallic standard. So we should, but it is Professor Frankel's point that, even in the days of gold, there was a whole world of trust in which the metallic standard operated.

### **An Orderly Universe**

Our nineteenth-century ancestors held predominantly to Lockean beliefs. They held that rights came from God as part of the natural order. The right to life presupposed the right to own property as a base for the cultivation of life-sustaining skills and for the provision for support in one's old age. And, in turn, the right to property involved the idea of contract, by which trading from a base, both for the short and the long term, could be made safe. Naturally the right to property extended to disposal and acquisition rights. Money was needed to introduce mobility into the Lockean system, and, for the sake of consistency, it was naturally assumed that money should be as subject to contractual stability as anything else.

The Lockean world involved trust in an order, with Ten Commandments morality taken for granted. Money was part of that order. When the order fell apart, money fell apart with it. Gold was repudiated only after men had ceased to believe in their Lockean rights.

Professor Frankel has discovered a far-seeking student of the moral basis of monetary order in the neglected figure of Georg Simmel, a German philosopher and sociologist whose *Die Philosophie Des Geldes*, or *Philosophy of Money*, appeared at the turn of the century. Simmel held that it was an illusion to suppose that money could stand outside the activities of people in "an empire of its own." It was nothing "outside the objects, services or rights to which it gives access." It had the power of being "incorporated in any future use that its possessor may desire to put it," but the "future use" presupposed the continuation of the moral order in which both the money and its contract-writing owner existed.

Simmel, one gathers from Professor Frankel's exposition of some concepts that are cloudy in their Hegelian formulations, believed in the liberation that came with the Lockean order. Men's possessions involved an extension of their individuality. Since money is "the most mobile of all kinds of properties," there is "a close interrelationship between the development of a

money economy and the growth of the role of the individual and recognition which is given to him."

### An Expression of Trust

As the guarantor of mobility and freedom, money, in its gold form, could hardly be called "barren." It was an expression of a society that held the individual in a certain regard. The individual, as a member of a society based on trust, was entitled to keep government, as his agent, at some distance. The distinction between society and the State, in the days which Simmel celebrated, was clear. The State did not create money, it merely functioned as the policeman who guaranteed that the people's gold or silver coins were of a certain weight and fineness. Money was a social product, dug in the original instance by individuals who got together to do the prospecting and to work the mines. The credit reared on the metallic base was a social expression of trust in people's promises to perform services, or to settle at agreed-upon moments in cash if that was desirable.

The Keynesians, with their flat belief that money is a creation of the State, have misread history. Unfortunately, they have succeeded in selling their fallacious idea to political majorities all through the western world. The majorities supinely accept the idea that money is simply a government-created tool of State

action. This is a complete negation of the older idea, expressed by Simmel, that money is a symbol of social trust. "The two conceptions," says Professor Frankel, "are incompatible."

The Keynesian conception makes money the "capricious and uncertain . . . prey to conflicting and varying political objectives." There can be no "social trust" when the money supply is subject to the commandments of politicians seeking to further pet projects at the expense of wildly unbalanced budgets. Such budgets result in pyramids of unbacked government debt-tokens that, in turn, are "monetized" to the detriment of price levels throughout the economy.

The sour joke, is, of course, on the Keynesians. When price and wage controls come, the politicians may think they can force their ideas of value on people. But, short of bayonets on every street corner and spies in every shop, this is impossible. The State's *fiat* can only go so far—even the circulation of inflated paper money depends on some remnant of Lockean trust. When the last remnants of trust are withheld, the Keynesians depart. Then the Leninists take over, money is abolished save as tokens of accountability in State rationing, and the mobile society of the Lockean gives way to the serfdoms that already encumber most of the world.

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**ECONOMICS: PRINCIPLES AND  
POLICY FROM A  
CHRISTIAN PERSPECTIVE**

by Tom Rose

(Mott Media, Box 236, Milford,  
Michigan 48042, 1977)

380 pages \$9.95

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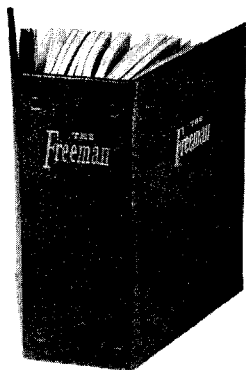
*Reviewed by Brian Summers*

THIS is an introductory text in economics written from a fundamentalist Christian point of view. The style is very readable, as the author explains basic economic concepts and uses them to defend the free

market profit and loss system.

If there is a criticism to be made of Professor Rose's book, it is his tendency to view economics as an empirical science—despite his references to Ludwig von Mises. He also relies somewhat on mathematical demonstrations, of the sort currently favored in academic circles. This is particularly evident in his chapter on competition, which he views in terms of market structure, rather than as a process taking place over time.

On balance, however, this book has much to offer, especially to those involved in Christian schools. ☸



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The law has made a distinction that lacks economic and moral justification.
- The Golden Age** **Ralph Bradford** 525  
Not in the past, or future; now is the time.
- What's in It for Us?** **P. Dean Russell** 528  
Helpful suggestions on how to promote the free market.
- Energy in a Changing World** **Bettina Blen Greaves** 531  
An overview of "the crisis" and suggested ways to cope.
- What the Interventionist Overlooks** **Sheldon Richman** 542  
A vital distinction between governmental force and market transactions.
- World in the Grip of an Idea**  
**21. The United States: The Thrust to Transformation** **Clarence B. Carson** 546  
The communications industry as an alien force to transform society.
- Law of the Jungle vs. the Jungle of Law** **John Semmens** 558  
The laws to eliminate risks only confront us with additional uncertainties.
- Some Thoughts on Taxation** **George C. Leef** 561  
To avoid injustice, let taxation be based on the principle: You pay for what you get.
- Book Reviews:** 570  
"Textbooks on Trial" by James C. Hefley  
"Welfare: The Political Economy of Welfare Reform in the United States" by Martin Anderson

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## “AFFECTED WITH A PUBLIC INTEREST”

JURISTS often weave erratic seams in the legal fabric we call jurisprudence. Once rooted in the law, error seems to possess all the tenacity of crabgrass; aided by the concept of *stare decisis* (stand by previous decisions) and the juridical tendency never to undo what has once been accomplished, error takes sustenance and proliferates, until a whole body of normative rules wells up and covers the territory.

This article deals with just such a concept: the doctrine that governments can regulate and control business enterprises “affected with a public interest.” In varying guises, this postulate with its myriad tenta-

cles has strangled freedom for almost a century, although its antecedents can be discerned in earlier Anglo-American reports.

The American birth of the rule took place in 1876 in a decision by the Supreme Court of the United States entitled *Munn v. Illinois*,<sup>1</sup> the most important of the so-called “Granger” cases presented to the Court at the same time. The Supreme Court of the United States upheld a Minnesota law which required grain warehouses to secure a license and to comply with price restrictions in order to operate as a business. The rationale of the court: grain warehouses were “affected with a public interest.”

In 1933, during the throes of depression occasioned by government interventions into the economy, the

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doctrine received impetus to strangle all manner of economic concerns in the case of *Nebbia v. New York*<sup>2</sup> which prohibited price reductions in enterprises "affected with a public interest."

The lack of judicial understanding of economic and moral values appears in the following statement:

The court has repeatedly sustained curtailment of enjoyment of private property, in the public interest. The owner's rights may be subordinated to the needs of other private owners whose pursuits are vital to the paramount interests of the community.<sup>3</sup>

A wiser decision, and one justified by sound reason of political economy and morality, permits anyone to engage in any business at any time unless he initiates aggression or practices fraud upon another.

The overweening coercion emanating from, and justified by, *Munn v. Illinois* and *Nebbia v. New York* impels us, even at this late stage, to examine the foundations of the doctrine. What does "affected with a public interest" really mean?

### **All Businesses Which Survive Serve the Public**

What businesses are cloaked with a public interest? A better inquiry: what enterprises are *not* affected with a public interest? Upon examination, one finds that he can make an equally good case for the public interest in all endeavors, and not

just grain warehouses, wharves and taverns. The only business not affected with a public interest is one which fails to serve the public. The sole business I can conceive of which does not serve the public is one which sinks into bankruptcy.

Once again, we discern a judicial decision which fails to accord with sound principles of economics and human action. The majority in *Munn v. Illinois* could not perceive that the only reason for the existence of any business enterprise is to create and transfer goods or services to willing recipients.

A successful business is one which satisfies enough consumers or customers at a high enough price so that the enterprise returns a profit to those individuals who have contributed to the entrepreneurial activity. An unsuccessful business is one which does not attract and satisfy sufficient customers at a sufficient price to generate a profit and encourage maintenance of the necessary capital investment.

To the extent that customers express satisfaction in a product or a service, in continued purchases, the producer serves the "public interest." To the extent that no customers seek the creations of a business, there exists no "public interest." Thus, we can say with some certainty that Edsel Motor Division of Ford Motor Company was not a business "clothed with a public

interest." On the other hand, any individual or corporate business which does attract and hold customers is, at least to that extent, "affected with a public interest."

### **All Interests Are Truly Private**

But the problem demands deeper consideration: How should we define "public interest"? What is the public? In a very real sense, all inhabitants of a given community or territory constitute that particular public, for a public refers to a community or populace at large in their common, nonprivate characters and capacities.

As with other terms, however, the phrase "public interest" has undergone a certain corruption at the hands of the illiberal element. Currently the words seem to convey a belief that the public interest overrides any personal or individual interests. Yet, all interests derive from persons. In that sense, all interests are private interests, at least at their genesis.

You like ballet; you band with others to form a civic ballet association to promote the art. Seminally, the community interest in ballet existed as a wholly private interest: yours. As you gain adherents, does the interest take on an altered character, or does it remain a distinctly individual undertaking? If the private interest changes into a public interest, do we measure such

dynamism by the number of supplicants or the character of the interest, or in some other manner? In other words, what is it which transmutes a purely personal individual value or desire into one of such overpowering essence and force that it can be termed a "public interest" and justify the limitation upon the freedom of individuals?

### **Private and Public Interests Are Not Susceptible to Differentiation**

The difficulty in responding to these rhetorical questions lies not in the answers but in the inquiries themselves. It is a difficult task to state a question neutrally, and these particular questions rest on a presumption that we can define and differentiate private and public interests. In truth, we cannot do so.

As commonly used, a private interest may be defined as a value<sup>4</sup> held by an individual. Since each man is a unique and discrete being, each man possesses a separate set of values or interests. I may be interested in baseball, you may prefer ice hockey. I may enjoy picking a guitar and singing; you may consider my renderings anything but musical. Each person, by his ideas, his words, and his conduct, holds and expresses these values which make up his private interests. He seeks to advance these interests, to enjoy them, to introduce others to them. Nonetheless, these interests

never lose their individual private character.

### **The True Meaning of Public Interest: Coercion Writ Large**

On the other hand, no such thing as a public interest exists, despite continual use of the phrase.<sup>5</sup> When one utters that pair of words, he means to convey a thought most aptly derived from *Munn v. Illinois*: he means that some private, personal, individual interest or value of one or more persons is, in the speaker's subjective opinion, of such overwhelming importance that all members of society should embrace it as eternal verity and that if any other private, personal, individual interest or value conflicts with the advancement of the first interest, the conflicting interest must be shunted aside, depriving the holder or holders of that second interest of their liberty or right to enjoy and advance the second interest. In plain language, the "public interest" represents a power tool to coerce those who disagree with the idea or subjective value advanced by the statist.

Consider this definition in analysis of some of our earlier examples. My pleasure in baseball may exist side by side with your interest in ice hockey; each private interest receives and satisfies its own followers. Should too few persons share my interest in baseball,

and refuse to patronize supporting advertisers and to buy grandstand seats, my favorite home team may move away to Spokane, for the owner has a private interest in making a return on his capital investment. If he does not make a return in Milwaukee, he will move to Atlanta; if he makes an insufficient return in the latter city, he may travel elsewhere or he may reinvest his remaining capital in an entirely different venture, one which attracts and pleases more people.

Now notice what will happen if I am able to convince the government that baseball is an enterprise "affected with a public interest." I may attend the games because they accord with my personal, private, individual interest. You, however, prefer to spend your earnings on the hockey games. If you and others who do not share my interest in baseball preponderate, the owner and operator of the team will lose money. Yet, if his business is "affected with a public interest," he cannot move the team to the most favorable location, or raise his prices, or take any other ameliorative steps. Instead, he must either remain captive and lose money (destruction of his capital), sell to someone else who will remain and lose money, or secure a subsidy or other favors from the government. Most "public enterprises" follow the latter course.

Subsidy and monopoly inevitably lead to regulation and disallocation of economic goods. One common result: increased taxes for all members of the community to support the team in the "public interest." I might well be willing to pay extra taxes to advance my private interest turned public, but chances are, I would rather mulct my neighbors, thinking that this endeavor represents the greatest good. In any event, you will be deprived of your capital (which you would ordinarily use to support the hockey team) against your will, and you will be compelled to watch your privately and justly earned funds spent on an endeavor you dislike, an endeavor which cannot carry its own weight in the free market.

### **Let Each Support His Own, Without Forcing Others**

The only fair method of allocating scarce resources between numerous activities commands each man to support that which he values with that which he has created, and to compel no other man to act contrary to his desires. Justifiable societal action consists of the coercive prevention of force and fraud and the preservation of a system of settling disputes, and no more. Myriad activities can take place concurrently, with no forced adherence to any particular one. If any endeavor lacks supporters, it must pass from the

scene until new support appears. When this concept replaces the doctrine of "public interest," when the "public interest" shibboleth reveals its true nature, freedom regains its exalted place.

As demonstrated earlier, any business not in bankruptcy is "affected with a public interest" in the sense that some customers (the "public" of that enterprise) find satisfaction in the products supplied. Mr. Justice Field recognized this a century ago when he declared:

The public is interested in the manufacture of cotton, woollen, and silken fabrics, in the construction of machinery, in the printing and publication of books and periodicals, and in the making of utensils of every variety, useful and ornamental; indeed, there is hardly an enterprise or business engaging the attention and labor of any considerable portion of the community, in which the public has not an interest in the sense in which that term is used by the court in its opinion. . . .<sup>6</sup>

Thus, the phrase not only connotes a coercively imposed choice by some adherent of a cause, but also descends into meaninglessness. It becomes a catch-phrase employed by courts to justify the unseemly result of depriving someone of his liberties, a juridical make-weight. Of course, the community possesses the naked power to pilfer and destroy. That is not to say that looting and coercion

is justified, nor can one honestly credit a grain warehouse or a milk seller with cloaking their enterprise with a public interest. Such a statement reminds one of a robbery victim pilloried by the community for owning property of interest to the miscreants.

No entrepreneur cloaks his business with a public interest. Each person evaluates his talents, creates capital, and plunges into an enterprise which he believes will satisfy the public and produce a subjectively acceptable rate of return. Employing the jaberwocky of the Supreme Court, one cloaks his business with a public interest when he serves the public well.

### **The Concept Extended; Public Utilities**

Venturing forth from the holding of *Munn v. Illinois*, the courts in the past one hundred years have justified all manner of regulation of, and intrusion into, the private affairs of those businesses denominated "public utilities." A public utility has been defined as a business regularly supplying the public with a particular commodity or service of "public consequence or need."<sup>7</sup> In simple terms, a public utility supplies a product which some of the public believes that all must have.

The mere statement of the definition expresses the ambiguous and

tautological nature of the phrase, similar to that encountered in defining "public interest." Anything and everything can fit the definition, depending on the values of the speaker.

Early inroads occurred in medieval England in the realm of food, drink and lodging.<sup>8</sup> Inadvertent poisonings occurred with some frequency and the traveler often found himself at the mercy of the innkeeper. Because sustenance and lodging formed the "necessities" of life, those who supplied these goods and services soon came to be labeled as "affected with a public interest" or some such nebulous phrasing signaling a limitation upon the suppliers' freedom. Of course, laws preventing coercion and misrepresentation amply protect the consumer.

In subsequent centuries, all manner of businesses fell in and out of the category of a "public utility," depending on the current whims and fads of those in power. Companies supplying water, fuel, power, energy, and transportation quickly come to mind. In almost every instance, the so-called public utility supplied goods or services which were greatly in demand; this factor seems to make one of the two distinctions between "public utilities" and other endeavors. The other apparent criterion for speaking of a particular business as a public util-



ity appears to rest on the fact that, while many individuals seek the goods or services provided, only a relatively few producers choose to offer such wares.

These two reasons require analysis in order to determine if any veracity resides in the rule singling out some businesses as "public" and limiting their freedom of action. We have already discerned that the mere attribution of the term "public" to a business presents an exercise in banality, since all businesses which sell goods or offer services demanded by someone else serve that portion of the "public." Nevertheless, is there any reason why we should treat some activities differently because (1) many persons desire the product or (2) few persons supply the product?

### **Universality of Demand**

First, consider the universality of desire. Economics considers the distribution of scarce goods, not free (abundant) goods. This science posits, as a first principle, the proposition that human wants are insatiable and competing, and economic goods (the subjects of those wants) are scarce. Values, being subjective, vary from person to person. Some desires crop up more frequently than others: the need for food, clothing, shelter, transportation. Yet the mere universality of these wants affords no rational basis for treating

the supplier with disdain or coercion.

Let us accept the postulate that man requires food to survive. It does not logically follow that the producer of grain, a farmer, must be restricted in his liberty merely because others gain sustenance from the grain. Suppose the farmer desires not to sell; he created the value (grain)—he should be able to eat it, hoard it, destroy it, do with it as he pleases. Such a right accords with justice and with the axiom that each man owns the absolute right to live his own life and to choose his own destiny without interference from any other human being, so long as the actor does not coerce or defraud another individual.

The farmer does not coerce or defraud the would-be consumer by holding onto his grain. The consumer retains the choice to eat beef, or olives, or jello, or to purchase grain from another farmer. Or, if he really wants the first farmer's grain, he will pay the price which represents the concatenation of values between farmer and producer. After all, grain is a perishable commodity and the first farmer will not want to store his crop forever lest he lose his entire capital investment. And, the first farmer cannot exist on grain alone; he requires a balanced diet, shoes for his children, blankets for his bed, tobacco for his pipe, books for his pleasure, and countless other

items which grade from necessity to luxury, depending upon the particular set of values held by the actor.

One may urge that individuals cannot survive without food and drink and, therefore, these products demand special dispensations. True, persons cannot survive for long periods without food and water; that fact does not justify restriction upon the liberties of others, so long as the others do not employ force or fraud.

We might conjure up a hypothetical example where a cruel creature hoarded food while others starved. Yet those who desire the food possess no moral right to take from the producer that which he has created. One need not evidence much perception to discern that few persons, if

any, will fit the hypothetical mold of evil, and that other citizens abound who possess sufficient food and beverage to alleviate any impending starvation and who display a willingness to do so. Sympathy etches the character of the free man. The supposition that one miscreant would and could corner the supply of food and drink (or any other product) and sit idly by while others go without sustenance remains the wildest sort of whimsey, wholly out of union with reality.

### **The Apparition of Monopoly<sup>9</sup>**

Second, consider the possible monopoly of production. Those who employ the concept of "public utility" fear the concentration of power

### **Competition Assures Efficiency**

It is apparent that a change in transportation costs, production technology, management, or any other cost factor can upset a monopolistic position. Also, a concentration beyond the optimum point is an invitation to failure, for the unit costs of production tend to increase again. The monopolist who disregards this fact invites potential competitors to invade his field and reduce him to his optimum size. There is no need for government to break up a giant enterprise; if it were too large, the competitors would reduce it. . . .

. . . Of course, it is most unnatural and unlikely for a businessman to rise to eminence through product improvements and lower prices, and then suddenly to turn toward output curtailment and price increases. But if he should act in such a manner, which is conceivable, he practices self-destruction.

**HANS F. SENNHOLZ, "The Phantom Called Monopoly"**

over the supply of a given product in one or a few men.<sup>10</sup> If a concentration appears, history proves it likely to be ephemeral.<sup>11</sup> If one man produces goods or services so much in demand that he makes a profit, other entrepreneurs will follow him into the field and reduce the cost to the consumer. If only a few supply the many, it is simply because those few are the only ones who freely desire to invest their capital in the enterprise, probably because the potential return lacks sufficient attraction to other enterprising venturers.

Proponents of the public utility concept often tender a collateral argument: public utility monopolies justify on the basis not only of the need of the public (demonstrated heretofore to be sham), but also on the preservation of capital. This contention assumes that competing public utilities would duplicate service and thereby act uneconomically because of the extensive capital investment commanded. Such a suggestion raises the immediate inquiry of whether, assuming the truth of the argument, such facts really justify the destruction of freedom.

More saliently, however, every producer competes with myriad others, both for the entire consumer dollar and for that part of the consumer dollar normally expended on such products. To this extent, each

producer duplicates investment with others, yet no one decries the competition between Montgomery Ward and Sears, Roebuck, or between Albertson's, Fred Meyer, Safeway, and A & P. Indeed, those most vociferous in favor of "competition" as a goal often inconsistently acclaim virtue for monopoly in the "public utility" arena.

If two power companies serve the same area, and duplicate transmission lines, so what? Each will remain ensconced in business only so long as it provides a satisfactory service to its customers. Indeed, increased competition inevitably leads to better service at a lower cost, with ultimate benefit to the purchaser. If one of the power companies cannot compete effectively, it will leave the industry and convert its capital to other, more favorable uses.

Competition no more destroys capital here than in any other business milieu; if capital is wasted or destroyed, that amounts to one of the costs we must be willing to pay for freedom. If one of the competing power companies leaves the field, the public utility proponents apprehend the increased cost to the "public" of this "necessary" service. Of course, the "public" possesses the ultimate weapon: it can refuse to purchase the service and thus drive the producer out of business (even if the service constitutes a "necessity," substitutes generally exist). Or,

more likely, a competitive producer, attracted by profit, will enter the field and offer the same service for a lower price.

Thus, we perceive that reason entitles no enterprise to the appellation "public utility" or the special advantages and regulations which attend such a designation. No business can be truly said to be "affected with a public interest" in the sense that such an endeavor should be subjected to special rules. Equal treatment should be the bench mark of state/business relations.

Persistent repetition of the "public" concept of business enterprises permeates the past century of American history, rendering the

hypothesis of almost universal acceptance. One can only pray that succeeding generations will visit the issue with precision and clarity of analysis and not be betrayed by the hoariness of age. Old myths die hard, but pass away they must if freedom is to become enthroned. One can pierce the fiction of a "public" business by recognizing that no business possesses "public" functions; the only business of business is business, the supplying of the best possible goods and services at the highest possible return to the greatest number of customers. If any business performs this function, it will amply serve the public interest. ☉

### —FOOTNOTES—

<sup>1</sup>94 U.S. 113, 24 L. Ed. 77 (1876).

<sup>2</sup>*Nebbia v. People of State of New York*, 291 US 502, 54 S. Ct. 505, 78 L.Ed. 940 (1934).

<sup>3</sup>*Ibid.*, 291 U.S. at 525.

<sup>4</sup>The concept of value provides a separate topic of discussion beyond this essay.

<sup>5</sup>One may wonder if man can conceive of that which does not exist. Unicorns on the moon and the vagaries of science fiction should dispel this question. Man seems destined to conceive, and act upon, political and economic fantasies.

<sup>6</sup>Note 1, *op. cit.*, 94 U.S. at 141.

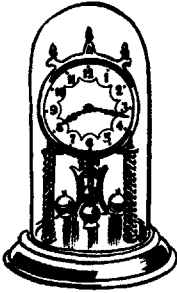
<sup>7</sup>See *Gulf States Utilities Co. v. State*, 46 SW 2d 1018, 1021 (Tex Civ App 1932); Black's Law Dictionary (4th Ed., West Publishing Company, St. Paul, Minn., 1957) 1395.

<sup>8</sup>One should not lose sight of the fact that English law, while possessing similar roots, differs markedly from the American experience, the latter stressing human liberty and the free market to a greater degree.

<sup>9</sup>See Note 1, *op. cit.*, 94 U.S. at 130-132, where Mr. Chief Justice Waite stresses the "monopoly" aspects of grain warehouses.

<sup>10</sup>How singular that most of these theorists express no concern over the concentration of monopoly power of coercion (government) in the hands of the few and the incompetent, yet quake with the thought of free market concentrations.

<sup>11</sup>Better minds than mine have exposed the illusions which pockmark the chimera of monopoly. See, e.g., Sennholz, Hans F., "The Phantom Called Monopoly," VII *Essays on Liberty* 295-317 (Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 1960); Armentano, Dominick T., *The Myths of Antitrust* (Economic Theory and Legal Cases) (Arlington House, New Rochelle, New York, 1972); Rogge, Benjamin A., "Will Capitalism Survive?" III *Imprimis* No. 5 (May 1974), discussing Joseph Schumpeter's *Capitalism, Socialism and Democracy* (1942).



# The Golden Age

NO MATTER how far afield we may grope, our more serious speculations seem to follow a pattern that arises from the conditioning of our lives. That conditioning, in its starkest simplicity, is that we enter the world of the living, we exist in it for a period—and then we pass on.

Therefore we are concerned with where we came from, what we are doing and why, and where we are going. All the philosophies of mankind have been built about these three questions; and it is significant that we are always more interested in looking backward and forward—reliving the past and projecting the future—than we are in understanding, using, and enjoying the present.

It is sad that we spend so much

time and energy, both physical and emotional, in retrospect and anticipation, and so little in the conscious savoring and utilization of the present moment. Some scholars explain this by citing the legend of the Golden Age—the concept of a far-distant time when all mankind was happy, and of a future day when they shall be happy again. Thus the Garden of Eden, the Expulsion, and the hope of Paradise Regained. Thus the Heaven and Hell of nearly all religions.

Some other psychologists have their own explanation, which they call the theory of intra-uterine blessedness. They argue that the only time of perfect peace and comfort known to man is the period spent within the warm, protecting, nourishing body of his mother. That period, they say, was the Golden

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Age, and all our groping toward a future state of bliss—toward tomorrow's happiness—is but the vague hope of attaining once more the perfect contentment of the prenatal period. They have a point.

### Facing the Present

The poet Swinburne, in one of his better moments, penned a significant phrase: "From hope and fear set free." In it he came close to the understanding of our constant backward-and-forward looking. If the demands of rhyme and meter had permitted him to add "regret" he might have completed the trilogy of emotions that keep our minds away from the present. For we regret only that which is past. We fear only that which may happen tomorrow—or this afternoon. And we are not hopeful about the present, only about the future—whether it is to be ten years or ten minutes hence.

But we live *now*, in this present moment. To be sure, the bit of existence called "now" extends infinitely across time, both into what we call the past, and into what we term the future. Warm memories of the past are pleasant things; hopeful anticipation of the future is part of our soaring optimism. But today, this hour, this instant—that is the moment of living. If it has its dark side, it comes usually from either regret or fear. But regret is of yesterday;

fear is of tomorrow. Neither can touch today, save as a man thinketh in his heart.

Of course it is only the rare soul that can set itself free (as Swinburne phrased it) from hope and fear. It is only the near-to-God who are released from regret. Yet it is in the attainment of these perfections, or the close approach to them, that we come nearest to perfect peace.

But in the external, practical sense, there is another reason for being concerned about the present. There is much talk these days about the future of our country. Air waves and news columns are full of it. What about the dollar—is it safe? What about education—is it adequate? What about Social Security—is it solvent, and indeed, "secure"? What about our long-continued inflation? The increase of crime? Juvenile delinquency? Drug addiction? What of our relations with the rest of the world—NATO, SEATO, OAS? What are we going to do about . . . ?

*Going to do!* Future action! Actually, it is what we are doing now, today, this minute, that will determine our fate, rather than what we are planning to do. We are charting the future, not in our plans for it, but in our present actions. Man, said Emerson, is where he is by repeated choice. The present is explicitly the result of the past. Society, like life, is a continuous flow. Every act and

decision of today will determine our tomorrows.

To put it concretely, if we want to have an economy and a society that is based on freedom, we shall have to begin *now* to talk and think in terms of freedom, rather than in the clichés of continued and increasing statism, for the one is the negation of the other. Political candidates who profess to favor a free society and a free economy will have to talk and think about insuring freedom, rather than bidding for votes by promising first one and then another segment of society that each will be given special benefits and privileges not accorded to others, but paid for out of the common treasury. Businessmen who proclaim themselves as being for the free market philosophy will have to learn what underlies and undergirds such freedom, and stop saying, in effect, "I'm for freedom—but. . ."

### Today Sets the Future

Plans for the future are fine if they are based on the concept of freedom. But the best laid plans of today may not be important when they are finally (if ever) brought to completion. But what is *done*, now, what is done *now*—this will determine what the future will be like. And surely no crystal ball or particular prescience is needed to predict a future that is based on insolvency—on a long-continued

program of spending each year more than is taken in, going constantly in debt through borrowing, and printing more and more paper money on the basis of the artificial credit thus created. The history of nations tells the story.

And if disastrous inflation should come, as it has elsewhere in the world under similar conditions, the first to suffer would be the people of small means and limited income, for whose imagined "benefit" most of the big-spend programs are supposed to be initiated! If present-day legislators and other political leaders continue to pile debt on debt, with no thought of how that debt is to be discharged or even reduced, and if the weight of that debt, hanging over the economy, continues to undermine the value of our money—who will have benefited?


Is there a connection between the vision of a safe and beautiful future and the dwindling value of our money? Yes! Repeat . . . *yes!* And this is not to put a dollar tag on happiness or security or any of the other "human" values that are so glibly recited—and so little understood. Man does not live by bread alone, but the price of bread can be of great symbolic and practical importance. Ask any elderly German who remembers the bleak period between the wars when, because of inflation, a loaf of bread cost a million marks or more.

Ask any citizen of Argentina who has had the value of his life savings wiped out by the inflation that country experienced as a result of big-spend-never-pay policies.

We can and should "live in the past" to the extent that we are willing to study history and profit from its lessons. We can and should "live in the future" to the degree that we understand it to be only an extension of the present, profoundly influenced by what we do today.

But NOW is the moment of life.

Paradise may indeed be lost through the sins of ignorance, selfishness and indifference. It can be regained through sacrifice and self-denial and the exercise of wisdom. But it is better not to regret a Paradise that is lost, or anticipate one that is to be regained. Just as there is something of God in every person, so there is something of Paradise in every moment, if only it can be realized and cherished.

Today, this hour, this moment—this is the Golden Age. 

**P. Dean Russell**

## WHAT'S IN IT FOR US



THE retiring board chairman of Sears, Roebuck and Company plans to devote a considerable amount of his time to explaining business problems to college students and teachers.

"It is important that we dispel some of the erroneous and misguided thinking about the American

business system," said Arthur M. Wood, "and that we communicate our viewpoint to faculty members as well as students."

I wish him luck. And, since I've devoted many years to precisely the same task, perhaps Mr. Wood will consider an idea or two on communications I've picked up along the way.

First it's necessary to understand why Sears beat all its competitors last year, with sales of \$17 billion and profits of \$900 million. I'm quite

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sure that the retiring chairman understands that their success was due solely to their ability to produce what we consumers want at prices we are willing to pay. Please note that I said "they produce what we want," not necessarily what we need or should have for our own good. That's the key to success: give us what we want in retailing, politics, or any other area where consumers have a choice.

I've observed the frustration of scores of successful business managers in their sincere efforts to "make a contribution to America" after they retire. They are usually unsuccessful. They forget that we patronized them in the past *only* because they gave us what we wanted. Suddenly they decide to become statesmen instead of market men, and to give us what we need and should have for our own good. If they had followed that policy as businessmen, they would have failed there just as they will now surely fail in their efforts to sell us the idea that business and profits are good for the nation.

### **Why Should We Change?**

If Mr. Wood wants to change our anti-business attitude, he's got to explain what's in it for us. Why should we change? After all, those fat-cat capitalists are ripping us off and making enormous profits at our expense, aren't they?

If that's not so, then Mr. Wood should offer us some specific (and persuasive) examples of how we underlings also are better off when business is profitable. If that approach appeals to him, here are a few possible examples he might use.

According to Professor Peter Drucker, the actual owners of our largest corporations are the pension funds of employees, teachers, and similar groups. For example, both of my teacher retirement funds (private and state) own billions of dollars of the common stock and bonds of Ford Motor Company and various other industrial giants. The president of General Motors is not the owner of that company, as so many of us seem to believe. He's an employee. We common stock owners (mostly persons who hold the stock for retirement purposes) hired him to manage our company for us. He may or may not own any GM stock himself; it's not relevant to his position as president.

The size of the retirement pension of teachers, teamsters, and GM employees is directly dependent on how much profit the president of that company (and others) makes for the owners. To cite another company in the same way, if Kodak makes high profits, my pension check from both of my teacher retirement funds will be bigger. But if Kodak continues to make small profits, I'll just have to work longer than I have in

mind. That same "pension connection" exists for the overwhelming majority of all of us.

According to the American Council of Life Insurance, most of the cost of my insurance is *not* paid by my premiums but by the profits earned on the ownership shares of companies the insurance agencies have invested in. If the industrial giants make no profits, the Council estimates that my insurance premiums could increase by 65 per cent.


### How Profits Serve Me

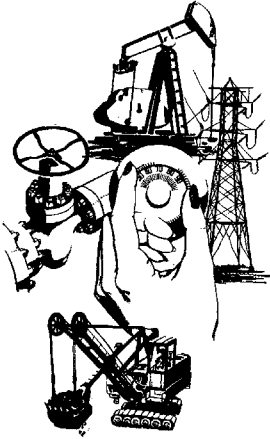
The higher the profits of America's big businesses, the more money I get when I retire and the *less* I now have to pay for insurance of all kinds.

*That's* why I'm in favor of profits—high profits—Mr. Wood. I don't care much about the alleged fact that big business needs bigger profits to buy more machines and equipment. And I can't get real excited about how much money is behind every job in America. Statistics bore me. Anyway, isn't that the sort of stuff we owners hire professional managers to handle for us? We pay them well—in fact, extraordinarily well—to keep our facilities intact and things like that. My concern is a dependable source of funds when I retire. And I'm well aware that it can't come from any source other

than the profits of big business. That's why I become unhappy when profits fall off and the stock market goes down. That's when I begin thinking about new managers for "my companies"—and also for my country.

I'm also opposed to the current double tax on profits—you know, about 50 per cent when the company first earns the profit, and then about 25 per cent more when I get what's left in dividends. This strange method of taxation increases my insurance premiums and decreases the size of my retirement check. Don't try to tell me that this double taxation is bad because it cuts down on needed capital formation. I don't really understand (or much care about) that. All I know, Mr. Wood, is that if you had used that dull, academic approach as the top manager of Sears, I'd have closed out my account with you and opened one with Wards.

While you were at Sears, you gave me what I wanted, and you always told me what was in it for me. Please continue to follow that sound rule in your explanations of competitive enterprise as the business system most likely to give all of us what we most want. We may not always believe what you say, but you are sure to attract our attention when you tell us what's in it for us. 



# Energy in a Changing World

FEW PEOPLE have the vision to conceive new ideas. Most of us wear mental blinders and can only visualize conditions continuing more or less as they are.

Early in the Industrial Revolution, short-sighted men predicted a fuel shortage. When the forests of England had been laid bare, there would be no more firewood for private homes and the small factories springing up across the land. Such short-sighted men again expected a fuel shortage in the middle of the 19th century. Large numbers of whales were being slaughtered and whale oil, used for illumination, was becoming scarcer. Also, the industrial demand for coal was overtak-

ing the quantity that could be readily mined. Even the noted economist, William Stanley Jevons warned "that we cannot long maintain our present rate of increase of consumption; that we can never advance to the higher amounts of consumption supposed . . . that the cost of fuel must rise, perhaps within a lifetime, to a rate injurious to our commercial and manufacturing supremacy; and the conclusion is inevitable, that our present happy progressive condition is a thing of limited duration." (*The Coal Question*, 1865/1866)

All such "doomsters" wear mental blinders. Those who predicted dire consequences when England's firewood was gone reckoned without the development of huge waterwheels to harness the energy in rivers and streams. They did not

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foresee the use of coal and the invention of the steam engine. Thus, they could not anticipate the factory system and large scale mass production. Nor could 19th century doomsters foresee the development of electricity and the new era in production and transport that was to be ushered in with the discovery of oil in 1864 in western Pennsylvania and soon thereafter in Texas. Step by step producers began to shift from coal to oil as their primary source of energy. Then, with the disruption of traditional trade channels during World War I, oil became a major fuel worldwide.

Those who have prophesied doom in the past have their modern counterparts. Many persons today foresee the exhaustion of domestic oil fields and catastrophe as a result. They also fear our continued dependence on oil imports and believe we should become self-sufficient in the field of energy. They believe we must explore every possible new energy source, even by using exotic and presently uneconomic methods of production. They urge extraordinary means to encourage the domestic development, production and distribution of energy. They caution consumers to conserve in every possible way. They say we may have to learn to live with fewer automobiles and less electricity.

Impatient with their failure to persuade others to their view by

peaceful means, many persons now advocate strong government action. They propose to use tax funds to spur the development of new energy sources, to stimulate domestic production, to plan distribution and to discourage consumption. Many a self-respecting politician today feels he is ill-prepared to hold office unless he can offer some proposal for a "comprehensive" energy program.

### **Federal Government Intervention**

Prior to World War I, the U.S. government had little to do with the development of energy and the production and distribution of power. But since then, countless energy-related programs have been enacted. Each was designed to cope with some particular situation that seemed urgent at the time. The Federal Power Act (1920) set up the Federal Power Commission (FPC) which now regulates and controls interstate aspects of electrical power, petroleum and natural gas. In 1935 public utilities holding companies were brought under the Securities and Exchange Commission.

The U.S. government is now up to its neck, so to speak, in the energy field. Through the interstate commerce provision of the Constitution, it deals with major energy users such as the railroads, buses, airlines and shippers of fuel. The Natural Gas Act of 1938 gave the FPC au-

thority to regulate the "sale in interstate commerce of . . . gas for resale." In 1954, the Supreme Court clearly held (*Phillips Petroleum Company v. Wisconsin*) that the interstate sale of natural gas came under FPC jurisdiction. As natural gas and oil are often found together, by fixing the price of natural gas artificially low, the FPC created a bottleneck in oil production also. Legal distinctions have led to different prices for gas and oil sold interstate and intrastate. When price ceilings discouraged the production of oil, a two-tiered price system was introduced to spur new production. Higher prices for "new oil" were allowed, to the disadvantage of "old oil" producers.

Labor legislation and safety regulations have involved the government in coal mining and many other energy-related industries. The federal government has built dams and reservoirs, developed and distributed hydroelectric power through such agencies as the Tennessee Valley Authority, the Bonneville Power Administration, the Southwest Power Administration, and the like. Among other energy-related government agencies there are the Offices of Oil and Gas, Coal Research, Water Resources Research, Land Use and Water Planning, Energy Data and Analysis, the Bureau of Mines, the Mining Enforcement and Safety Administration, the St.

Lawrence Seaway Development Corporation, and various administrations—Federal Aviation, Federal Highway, Federal Railroad, Urban Mass Transportation, and so forth.

Attempts to coordinate all these energy-related programs have led to various federal government offices—the Energy Policy Office (June 29, 1973), Office of Petroleum Allocation (November 27, 1973), Federal Energy Office (December 4, 1973) and the Federal Energy Administration (May 27, 1975). Then last year the Federal Energy Administration was converted into a full-fledged department with cabinet status. In the hope that the patchwork quilt of energy-related government programs could be shaped into one comprehensive consistent and efficient scheme, the Department of Energy was officially established on August 4, 1977—with a \$10 billion annual budget, several hundred million more than is spent in a year on drilling and exploring for oil.

### **Actions Have Far-Ranging Consequences**

We must remember that no action has just a single consequence. Making one choice means forgoing others. And the effects of an action taken and of choices forgone may be substantial and widespread. When Congress levies a tax, regulates production, tries to control prices or to

stimulate certain industries with special privileges, it does much more than it intends.

If Congress imposes a legal ceiling on fuel prices, for instance, it may force the nominal price of fuel down temporarily. But at the same time it encourages consumers to buy more, to be less provident and more wasteful of fuel. It also discourages investors and producers in the fuel industry.

In the attempt to compensate for these effects, Congress may then pass other laws to subsidize fuel production. These may spur producers to special effort for a time. But other consequences will soon become apparent as extra costs appear—higher taxes, inflation and/or credit expansion. In time almost everyone is contributing to the costs of the government programs through taxes and higher prices of everything including fuel.

The manipulation of costs and prices also has repercussions abroad. If the domestic price of fuel is kept artificially low, less will be available on the domestic market. Both foreign and domestic producers will look elsewhere for markets where they can sell at higher prices. If the domestic price of fuel is kept artificially high, imports will rise if not prohibited. Yet, such increased international division of labor and trade, though beneficial to consumers, is now considered contrary to

the government's professed goal of energy "independence."

Every government intervention is bound to have some unexpected and unwanted effects. To cope with each problem in turn, one government intervention after another is proposed. One government agency is erected on top of others. Yet the goal the legislators are pursuing continually eludes them. They find it impossible to manipulate prices and production so as to keep the prices consumers pay *down*, while at the same time keeping the prices producers receive *up* enough to cover their costs and induce them to stay in business.

### **Ideas + Savings = Production**

Not many centuries ago men had little energy available except what they produced from their own labor, that of a few animals, running water and the wind when it blew. And effective use of these energy sources was thwarted by primitive technology and lack of capital. Only about a thousand years ago did people find a way to harness horses so they would not be choked when pulling heavy loads and a means to protect the hooves of horses and oxen on rocky ground. Large windmills or waterwheels were not developed until 400 to 500 years ago because there was no call for them; the poor state of the roads limited both the quantities of raw materials a mill could obtain

and the distances the finished goods could be shipped.

Until fairly recently men pushed, pulled and pounded as best they could with their own muscles and elbow grease. They dug and scratched the earth using simple tools that soon dulled. At times, they had help from beasts of burden. But gradually men with ideas and vision made changes. They found ways to fashion more and better tools. They saved, accumulated capital gradually, until they could take time to build more elaborate tools and engines that produced more power. They found better ways to use old fuels and they discovered new sources of energy. In this way, innovations, often very simple ones, enabled men step by step to improve their tools and use of natural resources and increase their production of consumable goods. All the things we have today are products of ideas and vision plus savings.

As the firewood of England was approaching exhaustion, men with ideas and vision turned to coal. As transportation by land and water improved production and savings increased, they devised larger waterwheels to run their mills. When entrepreneurs were looking for ways to increase the output of their small factories, several inventors came up with designs for engines that could convert coal to steam power. Even as economist Je-

vons was warning in the 1860s that the increasing inaccessibility of coal would force British producers and consumers to cut back, huge supplies of petroleum were being found in the United States. Necessity, as the proverb says, is the "mother of invention"—if, and only if, men with ideas and vision are free to follow through.

### **Energy Developments Since World War II**

Few people can conceive of the ingenuity producers will show—if free to try and to profit—when challenged by a scarcity of raw materials and a rising demand from consumers. Millions of natives had roamed the Middle East without realizing the potential wealth in oil that lay underfoot. Large scale production of oil in that part of the world has been primarily a post World War II development. Companies, employing men with ideas and vision, foresaw a rising demand throughout the world for products that require the consumption of energy. With the aid of savings and large accumulations of capital, they explored and developed the oil fields of the Middle East. They often constructed complete cities to house and supply their workers in that harsh, desert climate.

At first local officials were fairly cooperative. Production boomed. However, the spirit of nationalism

was on the rise. The Arab nations soon began to impose higher and higher taxes and to threaten confiscation or nationalization. Oil companies also became alarmed at the threat of serious conflict between Israel and the Arab nations which could disrupt shipments of oil from there to the United States. Yet, they anticipated that the energy demands of consumers throughout the world would continue to rise. So they sent geologists to other parts of the world.

### The Alaska Pipeline

In 1968, representatives of the Atlantic Richfield Company found oil on the northern slope of Alaska, near Prudhoe Bay. Before long it appeared that this was an extremely rich source of oil. In 1969, several U.S. firms bid more than \$900 million for drilling rights. Their next concern was how to transport oil from the northern slope of Alaska to consumers in the lower 48 states. By land or by sea?

In 1969, Humble Oil Company, with Atlantic Richfield and BP Oil Corporation participating, dispatched the *S. S. Manhattan*, a thousand-foot oil tanker, to search for a northwest passage connecting the Atlantic and Pacific oceans. This tanker pounded through the ice and finally succeeded where explorer Henry Hudson had failed, reaching the oil fields of Prudhoe Bay. Thus,

men with ideas and vision demonstrated that oil *could* be transported to the rest of the world by oceangoing tankers—if the cost were not prohibitive. At the same time, the oil companies were investigating the construction of a pipeline running southward from Prudhoe Bay to Valdez on Alaska's southern shore. This pipeline route soon appeared the more feasible and economic way to ship the Alaskan oil. As arrangements to extract the oil proceeded, so did plans to construct the pipeline. But work on the pipeline was soon halted.

For 10 or 15 years, conservationists had been pointing out that energy-using producers and consumers are continually polluting the environment. In 1969, at their urging, Congress had enacted the National Environmental Policy Act, effective January 1, 1970. The Council of Environmental Quality and the Environmental Protection Agency were set up, with certain powers to compel business firms to clean up waste products and refrain from polluting the waterways and the atmosphere. Conservationists also persuaded Congress to pass a law to protect plants and animals that might be threatened with extinction because of industrial development.

In 1970, three environmental groups—the Wilderness Society, the Environmental Defense Fund and



Friends of the Earth—claimed that the National Environmental Development Policy Act required the U.S. Department of Interior to file an “environmental impact statement” before granting a permit for the construction of the oil pipeline in Alaska. The warnings of environmentalists were strengthened by several well-publicized oil spills—notably that from the tanker *Torrey Canyon* off England in March 1967 and the January 1969 leakage offshore near Santa Barbara, California. Thus, the permit for construction of the Alaskan pipeline was withheld for several crucial and costly years—out of concern for the environment, the permafrost and the wildlife. Also delayed as a result was the delivery of oil from the new fields to consumers in the lower 48 states. Not until Congress passed a special enabling act, signed by President Nixon on November 16, 1973, could the pipeline construction be resumed.

During these years, 1970-1974, many problems materialized which the oil firms had anticipated and for which their employees with ideas and vision had tried to prepare by expansion, research, exploration and development. The energy demands of consumers rose. Conflicts continued in the Middle East. Oil shipments from there became ever more uncertain. The Arab nations, with other oil producing countries,

set up the Organization of Petroleum Exporting Countries (OPEC), a cartel to enhance their bargaining position and raise the selling price of their oil.

### Confiscation

The oil companies' fear of confiscation or nationalization was borne out. In 1973, Libya took over the properties of several foreign oil companies. Rather than nationalize directly, some OPEC nations levied confiscatory taxes and fees on firms with facilities within their territories. Then in October 1973, the OPEC nations imposed an outright embargo on oil shipments. Throughout the world, wherever oil prices were flexible, they rose sharply. Wherever oil prices were regulated by governments, serious shortages and dislocations developed, with many cold homes, plant closings and long waiting lines at gas pumps. The lifting of the OPEC embargo in March 1974 alleviated the immediate crisis, but the wide-ranging effects of countless energy-related government regulations and controls persisted. To further complicate the international oil situation, the facilities of foreign oil companies in Venezuela were nationalized as of January 1, 1976.

During the years when the Alaska pipeline was delayed, most governments throughout the world were inflating their currencies, i.e., in-

creasing the quantity of their money in circulation. This led inevitably to higher prices for almost everything needed to construct the pipeline and seriously complicated the necessary economic calculations. When governments are inflating, it is especially difficult for any business firm engaged in a long-range, time-consuming, large-scale project, requiring huge accumulations of capital, to calculate potential costs and selling prices. Projects such as the development of oil fields, the construction of a gigantic pipeline of sophisticated technology and the coordination of all these activities with those of oil shippers, warehousemen and retailers throughout the world, call for huge savings and very complex economic calculations that are difficult or impossible in a world of volatile prices.

In addition to the uncertainties created by the delay, the Alaskan pipeline's cost rose substantially because of inflation. Its final cost was about \$7.7 billion. Interest alone on the construction loans has been estimated at \$1.1 billion. Also, if work had been permitted to continue as scheduled, the pipeline might well have been in operation before the 1973-1974 OPEC oil embargo. However, it was the summer of 1977 before the Alaskan oil began flowing.

The development of nuclear energy was actively encouraged and

subsidized by government in the early years following World War II. Yet in the 1960s nuclear power plants became a special target of environmentalists. Legislation permitted them to adopt various delaying tactics. Often disregarding the property rights of others, they picketed, petitioned for delays and instituted suits. They widely exaggerated the environmental impact and potential risk of explosion of nuclear facilities.

Environmentalists succeeded in postponing for more than ten years FPC approval of Con Edison's nuclear-powered Storm King Project on the Hudson River. Approval was finally granted March 14, 1973—too late to be in operation when the OPEC embargo was imposed. Then actual construction was halted four months after it began—by court injunction still in effect as of this writing, pending study of the Project's effect on fish in the Hudson River. During these years of delay, brown-outs and blackouts have been fairly frequent in the New York area. The most notable occurred November 9, 1965, when just at the evening rush hour the entire northeastern part of the country was blacked out for twelve or more hours. This is one instance when persons of vision and foresight, attempting to meet an anticipated rise in demand, have been frustrated by government interference and delays.

## Interventions Have Unwanted Effects

As pointed out, we must remember that no action has just a single consequence. This lesson is amply illustrated by our experience with recent government energy programs. Even the best intentioned legislation, whether designed as a piecemeal measure to cope with a special contingency or as a comprehensive program to encompass and coordinate all related activities, is bound to have unwanted results its advocates failed to foresee.

For instance, laws to safeguard the environment have required costly anti-pollution devices—scrubbers on power plants and catalytic converters on cars—which consume still *more* fuel, in violation of the goal of energy conservation.

Subsidies to encourage consumption or to support oil prices on the U.S. market tend to attract additional imports, in violation of another professed goal, energy independence. If imports are then legally restricted, the consumption of domestically produced oil may rise, hastening the depletion of existing domestic oil fields.

Dismemberment of the big oil firms, as some persons have suggested, would inevitably increase oil prices to consumers. Smaller firms could not take advantage of the same mass production methods or maintain facilities in other lands

where resources may be more readily accessible, easier to extract and so available to consumers at lower prices. Advocates of this proposal apparently do not realize that business can become big and earn profits in a free market economy only by developing economies of scale and serving many customers better and cheaper than do their competitors.

Government officials are ill equipped to plan the development and distribution of any good or service. They cannot be specialists in every field. In proposing to regulate and control the development and distribution of any good or service they are short-sighted. Their vision of the economy is limited by mental blinders. They may recognize that adding a new tax or tariff to the market price of a good or service will prevent consumers from buying as much as before. They may realize that an offer of subsidies to producers, or consumers, will spur them to increase production, or consumption, of the good or service concerned. But they cannot see the *other* consequences of such legislation, because they cannot know what people will think or do.

They cannot know how producers and consumers will try to adjust to avoid unwanted side effects of the laws. They cannot know just how producers and consumers will respond to higher, or lower, prices. They do not know what is going on

in the minds of individuals— inventors, entrepreneurs and consumers—who are always looking for ways to do things more easily, cheaply or better. They can never know what innovations may be developed that will prove to be the wave of the future. With respect to energy, government legislators and administrators cannot know what new production techniques, new ways to use old fuels, or sources of new fuels will be developed.

### **Energy Production in the Future**

The provision of energy in the future will depend on the ideas, actions and savings of countless individuals. Just who will make important contributions no one can know in advance. Therefore, government should refrain from imposing restrictions that might hamper incentive. Individuals like those who conceived of the wheel, the harness and the steam engine, should be free to pursue their ideas, use their property as they wish, to save and invest and to try to improve present energy techniques.

Today's methods of energy production were developed by countless men of ideas and vision, each familiar with some particular aspect. Countless such individuals helped to develop oil in Texas, offshore Louisiana and California, Alaska, the Middle East, the North Sea and elsewhere, as well as to discover the

as yet unproven fields in Mexico and off the United States eastern seaboard. The ideas, vision and savings of countless persons have made it economic to extract oil from far beneath the seas and coal from depths economist Jevons never dreamed of.

Elaborate designs for the development and distribution of energy have been devised. These ideas plus huge accumulations of capital have made possible the construction of extremely productive tools and equipment—propellers, furnaces, motors, turbines, batteries transformers, computers, oil drilling rigs, refineries, long distance pipelines, deepwater platforms, supertankers, offshore oil terminals with buoy moorings and pipelines direct to storage tanks on shore, gigantic power plants, high power transmission lines, and the like. Now on the drawing boards are potential schemes for deriving energy from waste, hydrogen, sea water, geothermal plants, satellite solar power stations, and so on. We cannot know just how energy will be developed and distributed in the years to come. But we can know that energy production in the future will depend on cooperation between savers and men of ideas and vision.

Whether the energy of future generations comes from the atom, the wind, the sun, the seas, the rivers, the earth, plants or some other still unrecognized resource must be left

to those whose ideas and actions pave the way. We cannot expect any one in a legislative assembly and government office to plan successfully for the development of new energy sources or for adapting tools and machines to new fuels. No government program can provide for the satisfaction of future energy needs as well as individuals will if left to their own devices. If individuals are free to pursue their own ideas and vision, the energy demands

of the future will be taken care of from day to day. Each inventor, saver, investor and entrepreneur will adapt and adjust to changing conditions in the course of daily living and working in the field of his special interests. And if the consumers of the future are also free to choose, each will decide how much energy to consume, and for what, on the basis of market prices prevailing then and the urgency of his various wants and goals. (E)

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**Sheldon Richman**

## **WHAT THE INTERVENTIONIST OVERLOOKS**

HOW MANY TIMES has a detailed defense of the free market ended with a show of incredulity on the part of the advocate of interventionism?

A typical case might go like this: You have just argued that the market process and the principles of human action make it impossible for there to be long-term, mass, involuntary unemployment or inflation or depression or any of the evil attributed to capitalism, but actually caused by government tinkering.

The astonished defender of socialism inevitably will smile and say something like this: "Do you expect me to believe that all of these problems are caused by the government? That none of them is the

result of capitalism; and that if we just got the government out of the market these problems wouldn't exist? Come on! It's too simple, too pat. Life isn't that easy. Wake up to the real world."

To a young libertarian just beginning to study the workings of a free society, a criticism like that can be devastating. After all, isn't it too pat? Isn't it too easy to blame the government for all these problems? Isn't it simplistic?

A brief reflection on the subject reveals that while it may be simple, it is far from simplistic. Simplicity, a forgotten rhetorical virtue, is hardly an indictment of an argument.

When faced with such criticism, the defender of the market would do well to remind his opponent of what's being discussed. The market, absent of force and fraud, is a shorthand term for a group of individuals cooperating in the pursuit of various goals. Striving after different values, working to realize divergent plans, possessed of diverse stores of knowledge, these individuals go their chosen ways, trading only when it is to mutual advantage.

Without intending it, such actions by individuals—their acceptance and non-acceptance of goods and services at market prices—generate a complex system in which all the diverse knowledge of the separate individuals is put into a form that is

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usable by all the market's participants. It is a system in which all people are left free to pursue their plans without constraint; where the wealth of information contained in market prices offers all the opportunity to rationally adjust those plans when appropriate. In short, the system that spins out of the actions of free human beings offers them the only peaceful, efficient way to deal with an uncertain future. (In this regard, see F. A. Hayek's *Law, Legislation and Liberty*, Vols. 1 and 2.)

Now, what is government intervention and what does it do to this process? Government intervention, when it comes down to it, is the power of the gun. It is brute force, pure and simple. Motives here are irrelevant. Whether the government is full of benevolent bureaucrats or pernicious politicians is of no consequence. If a seller charges more than the government-imposed price ceiling allows, he will be jailed or deprived of his property. The same fate befalls anyone who violates government edicts.

The opportunities of the market participants to make and attempt to realize their plans have been stymied. The system that makes the harmonizing of divergent plans possible has been distorted into one of inevitable clash due to government distribution.

Hayek writes, "The spontaneous order arises from each element balancing all the various factors operating on it and by adjusting all its various actions to each other, a balance that will be destroyed if some of the actions are determined by another agency on the basis of different knowledge and in the service of different ends."

Hayek here points out the interesting and crucial fact that the market is resilient and flexible regarding forces generated from within, but is easily thrown out of whack by forces from without, that is, political forces.

Is it any wonder that government intervention (read force) creates undesired consequences? Hardly. In fact, to argue that the free market is the only road to peace, prosperity and freedom ought to be a recognized truism. What could be a more obvious statement? It's like saying peace is peaceful or free people are free. That this is not grasped by most people illustrates how far our culture has departed from the liberal thought that characterized the late 18th and 19th centuries.

But the interventionist doesn't see it that way. Granting, for the sake of argument, that his motives are pure, he will insist that freedom, peace and prosperity can only be obtained by regulation. We must prevail upon him to explain this apparent contradiction.

He will usually fall back on the "economic power" argument. In essence, he will say, "Okay, it is true I am advocating the use of government power. But only because in the free market some people will wield excessive economic power. Therefore, it is a choice of who should wield power for which purpose: economic power for private purposes or government power for public purposes."

A subtle—and hopelessly confused—argument. First, the distinction between public and private purposes is an illusion. The public is simply a group of private persons. So, all purposes are private. Similarly, all interests are "special."

And what is this "economic power" to which it refers? It can only be the power to produce things consumers desire. How can this be excessive? Our earnest interventionist is likely to reply that it becomes excessive when the provider is able to sell at an "excessive price." He becomes less earnest when reminded that (a) no one is forced to buy a good if he thinks the price is too high and (b) no one has ever bothered to define "excessive price." Perhaps an excessive price is one that consumers wish were lower. In that case, is there any price that is not excessive? (Incidentally, every day of the week people decide prices are excessive for them in their spe-

cial circumstances. And they turn down the products in question.)

Backed up against the wall of reality, the interventionist reveals his confusion about two other items: consumer demand and the pricing system.

If a consumer cannot afford a product, it is argued, his rights have been violated. But it cannot be true that a consumer has a right to another's product, for that would make the producer his slave. There would be an inequality of freedom. Our interventionist may then take the "created needs" tack. This is the argument, popularized by J. K. Galbraith, that producers use advertising to create consumer need for their products. Is it fair to create needs, then make the product too expensive for the consumer to afford?

This, too, is an illusion. No one can create a need. A person may learn to desire something and may expect to continue having it. But that is the result of his choice. All a producer can do is to inform a potential consumer about a product. He cannot create a need. This would be obvious if the interventionist would think of all the things he doesn't buy, despite frequent advertisements. Or is he the only one immune to Madison Avenue brainwashing?

"But people have to eat!" says the interventionist. "The seller is wielding power over us by charging us too much for food."



It is true that people have to eat and use other goods to live. But this is not the fault of producers. It is a condition of nature that mortal men need to produce certain values to maintain their lives. Does it make sense to blame this condition on those who produce those values? Does it make sense to criticize them for not doing more than they have done? Does it make sense to attack them for not offering to become serfs? This is an ill-considered position for sure.

It also ignores the fact that no one has ever controlled or could ever control all the food production resources and the further fact that all products have substitutes. The upshot is that no one, not even the alleged monopolist, is immune from market competition.

The ignorance of the pricing mechanism is even more profound. The interventionist believes that prices are arbitrary. To be more precise, he thinks that prices begin at some point above "costs," and that any particular price is arbitrarily set by the seller.

"He can charge any price he wants," sums up the attitude. Well, it's true that a seller can ask any price he wants. But that doesn't mean he can get it.


Prices are not arbitrary and they are not determined by "costs." They are set by the intensity of consumer

demand for the existing supply. If an apple pie that costs \$3 to produce can command a price of only \$1 on the market, no seller is going to hold out for \$3 or more if his interest is profits. The fact that it costs \$3 to produce is of no interest to consumers. Their concern is whether the satisfaction the pie will render is greater than what they are being asked to give up for it. The seller's costs are irrelevant.

According to the subjective theory of value, the value of an item exists in the mind of the person who would use it. Far from costs determining prices, it is really the other way around. The costs of factors of production will be determined by the price producers expect the final good to command in the market.

What all this means is that consumers have as much control over prices as do producers. Each has the ability to say "no."

The foregoing demonstrates that the interventionist prefers the power of government to impose its arbitrary will to the power of people to produce for the satisfaction of consumer desires.

Well, that's his choice to make. But please let's make certain he knows what he's advocating. One cannot make claims to rationality by advocating force to achieve peace, restraints on production to achieve prosperity, and slavery to achieve freedom. 



# World in the Grip of an Idea

Clarence B. Carson

## 21. The United States: The Thrust to Transformation

THE OCCASION was a civilized one, very nearly formal, and certainly decorous. Military personnel in their dress uniforms presented the colors. The well dressed audience, many of the women in full-length evening dresses, stood for the singing of the *Star Spangled Banner*. A multi-coursed dinner was served by male waiters, well trained in those flourishes which add to the decor of an occasion. A goodly number of prominent people were present, and the

main speaker was the lieutenant-governor of the state. The audience was well mannered, polite, and conscious of doing the right thing by applauding at all the places where it seemed to be indicated. Civility was an unannounced guest of honor at the occasion.

For a brief span of time in the midst of the proceedings, two men entered the room. Their attire was only a slight improvement over that of ranch hands returning from a long cattle drive. One of the men wore a cap which remained on his head for the whole time they were there. One man was a photographer, and the other was his lighting assist-

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

ant. They went about their picture taking with no apparent regard for the audience or participants, standing between some of the audience and the dais, moving about at will, shining bright lights here and there, and making it difficult for all others there at the high point of the proceedings.

Undoubtedly, the photographers were invited to come to take pictures. Undoubtedly, too, they were going about doing so in the most direct way. My point, however, is that they were an alien element in our midst. Their attire and manner would have been little different if they had been photographing hogs wallowing in their mire. Our manners, our customs, and our purposes could hardly have concerned them less if they were invaders from Mars.

My larger point is this. There is an alien force in our midst, a force (or pervasive influence) which is alien to our manners, customs, traditions, morality, and institutions. We are all familiar with it in its most obtrusive form, that of the newsman or reporter. We have all seen such reporters, at least on television, crowding about some person, pushing for attention, shoving microphones in his face, blinding him with flashbulbs, and insistently demanding answers to questions which are none of their business. It is a good analogy to think of them as

wolves, baying at some prey they have surrounded, preparing to strip his garments away and render him helpless before them.

### **The Communications Industry**

Reporters are, however, only the most colorful of a much more extensive alien element. It holds sway in a whole vast industry, or, more precisely, a congeries of industries. In its lesser dimension, it is often referred to as the communications industry, the opinion industry, or, simply, the media. In its broader dimensions, however, it embraces much more: the entertainment industry, the information and education industry, and a vast assortment of other businesses which lie on the periphery of these. It includes records, tapes, books, magazines, movies, radio, television, newspapers, much of live entertainment, schools, a portion of organized religion, the world of fashion—clothing, hair styling, adornment—and so on. In terms of impact, it might best be called the Lifestyle Industry. In terms of its thrust, it should be called the Transformation Industry.

If it be considered a single industry, it is a huge industry, and much of it is highly profitable. The publishing industry alone is so vast and profitable that large corporations have bought old houses in order to diversify and become more profitable. The ownership of a television sta-

tion is the nearest thing there is to a franchise to print money in the United States. Although the Lifestyle or Transformation Industry includes activities that are generally not profitmakers, such as schools, those who work in them are often well rewarded.

Despite the size, sway, and profitability of much of this industry, a strange and apparently contradictory development has been taking place over the last decade. As business in general has been ever more closely regulated and controlled, as much of business has been turned into an instrument of government, the Lifestyle or Transformation Industry has been breaking loose from such regulations and controls over it as there have been. An ever wider arena of freedom from either social or political control for those in this industry is being carved out. The tendency is for the Lifestyle Industry neither to be controlled by government nor to be an instrument of government. Its thrust is rather toward the control and use of government and to assume for itself the role of society.

Much of the great tradition of liberty in the United States has been pre-empted by the Transformation Industry and instrumented for its specialized purposes. The industry relies mainly on the First Amendment to the Constitution to expand the boundaries of its uncontrolled

activities. The Amendment reads, in part: "Congress shall make no law . . . abridging the freedom of speech or of the press; . . ." It has long since been stretched far beyond the meaning which could be deduced from its language to include all governments and is widely used to inhibit any criticism of things spoken or written. The battle cries of "censorship" and "academic freedom" are employed to deter any control over the press and schools.

### **Liberty into License**

Freedom, it has been said, is like a seamless cloth. Those who point this out have been most often inclined to argue that you cannot have freedom of speech, press, religion, and political activity without the corresponding freedoms entailed in private property, trade, enterprise, and managing your own affairs. The theory supporting this view is well established, and much historical evidence can be adduced which tends to prove it. But there is another aspect of this principle which is not usually noticed. It is that partial liberty tends to degenerate into license.

When does liberty become license? Or, when does the exercise of liberty become licentious? One way to answer the question is to say that liberty becomes license when its exercise intrudes upon the realm of other people and becomes abusive.

Another way is to note that liberty tends to become license when it is cut loose from that to which in its proper exercise it is responsible. The principle can be stated more directly: Unrestrained liberty tends to become license. Partial liberty, enjoyed by some portion of the populace only, that is unrestrained not only becomes licentious but tyrannical. Freedom without responsibility is indistinguishable from tyranny.

Those who claim that everything must be regulated are correct. (The fact that we have come to identify regulation with something that government does in our day should not mislead us on this point.) The principle may be most readily grasped by a mechanical illustration of it. Every automobile is equipped with a generator or alternator and battery. The battery is for storing electricity, and the generator is for replenishing the supply. However, the electricity cannot go directly from the generator to the battery. Between the two is a voltage regulator, a device which keeps the voltage entering the battery within a tolerable range and prevents the battery from being overcharged and destroyed. All transmitted electricity requires similar regulation.

In a like manner the amount of fuel going into an engine must be regulated. The driver of an automobile regulates the fuel by de-

pressing or releasing pressure on the accelerator. It is impractical, however, to regulate the amount of fuel going into all engines this way. For example, power mowers need more or less fuel depending on the height, thickness and toughness of the grass that is being cut. Lawn mowers are equipped with governors to provide regulation in ordinary circumstances. Without them, lawn mower engines would either be continually stalled or run dangerously fast most of the time.

### **Market Pricing**

Price is regulated in the free market by supply and demand. The demand is kept within the confines of supply by variations in the price. Price is held down and supply is kept up by competition. It happens, too, that so far as the quality of material goods and physical services is concerned, better quality generally sells for a higher price and poorer quality at a lower price, other things being equal. (With fruit and vegetables, the time of year or season must be taken into account, of course. High quality tomatoes are usually less expensive in summer than are the poorest quality in winter.)

But the laws of economics are almost entirely ineffective in regulating quality by price in the intellectual and spiritual realm. It costs no more to reproduce the words in the

Bible than it does those in the most scabrous pornographic novel. Once the recording has been made, it costs no more to make copies of Mozart's harmonic symphonies on records or tapes than it does of the outrageous noise of the Sex Pistols. Supply, demand, and competition still regulate price, but the market has no device for registering spiritual and intellectual quality.

The market, as the late Ludwig von Mises was fond of pointing out, is democratic in tendency. It tends to provide the greatest number and variety of goods to the greatest number of people. It responds to the most widespread and urgent demands. The market, as such, has no values, no standards, no morality, except such as are fed into it by buyers and sellers. The market is, let us face it, a potential monster, catering to the most debased taste, the most depraved yearnings, and ready to provide the perverted with the means for practicing their perversion.

There is, normally, a corrective to and inhibitor of this monstrous potentiality of the market. Normally, the free market does not exist and function alone and in splendid isolation; it is an integral aspect of freedom and responsibility within the society generally. The free market is a part of the seamless cloth of the free society.

The market may be democratic, but society is, by nature, aristocrat-

ic. The market, as such, may be value free, but society is value laden, ever sifting in a timeless way the wheat from the chaff. The market is a mechanism of society. Society is the normal regulator of the market, insisting upon quality as well as quantity, inhibiting what may be bought and sold there, bringing standards, values, taste, judgment, and morality to bear on what takes place there.

### **Regulations Abound**

This brings us to what has happened and what is happening in the United States. There should be no doubt that the fabric of liberty is torn. There is not a free market in general. The market is hampered, restrained, controlled, planned, and intervened in by government. Meanwhile, a limited aspect of the market, that which offers fare for the soul and mind, is being given ever freer rein. It is not possible to buy an automobile without seat belts, but every sort of depravity is luridly described in books and magazines readily available. Diabetics may not be able to buy substitutes for sugar, but there is none so depraved that his tastes are not freely pandered to in the market.

More, society cannot effectively maintain its taboos today. It cannot bring to bear a discriminatory taste, judgment, the weight of custom and tradition, and morality upon what is

sold in the market. Its prescriptive powers have been largely deactivated. Society is wounded and crippled where it is not entirely disabled. The regulator has been removed from that portion of the market that is free.

How this has come about is too large a story to tell in all its detail. It is much too complex to do more than call attention to the outlines of the process here. One thing should be clear: It has come about largely as a result of government intervention in and inhibition of society. Society wields its influence and maintains its prescriptions by a great variety of customs, institutions, traditions, and organizations. The most basic institution of society is the family. The basic tasks of the family are the nurture and upbringing of children, the provision for those in their midst who are unable to take care of themselves, and the looking after aged relatives. To accomplish these tasks, authority must be exercised, and divisions of responsibility must be maintained.

### **Paternalism**

Government has now assumed much of the role of the family. Compulsory school attendance and government prescription of what must be taught relieves parents of much of their responsibility for the children and authority over their upbringing. Welfare and Social Secur-

ity payments eroded dependence upon the family. When dependence is gone much authority is lost as well. The tendency of government intervention has been to reduce the family to an affectional unit, to remove much of its disciplinary authority, and to make it no stronger than the fickle ties of affection.

The authority of employers has been drastically reduced by government intervention. Every government prescription of wages, of hours, of working conditions, and of employer-employee relations reduces the authority of the employer.

A spirit of litigation afflicts Americans today. Patients are suing physicians, students suing teachers, employees suing employers, wives suing husbands, women suing men, blacks suing whites—even children suing parents. What this signifies, when it becomes rampant, is the breakdown of society, the substitution of force for persuasion, and the intrusion of government into every nook and cranny of life. It is a state of covert civil war superintended largely by federal judges. Those who bring suits may not realize it, but every suit invites, even requires, that the force of government be brought to bear to bring the parties into line.

What has all this, and much else of similar character, to do with the largely uninhibited onslaught of the Lifestyle or Transformation Indus-

try upon us? It has everything to do with it. Society enforces its prescriptions mainly by approval or disapproval of acts. Public decorum, morality, and civility is maintained because the individual seeks the approval of others around him. In a similar fashion, good taste and high standards depend upon the desire people have for the good opinion of others.

It seems natural to many of us to wish to be in good standing with those with whom we come in contact. But for the generality it needs to be reinforced by exigent social ties. One seeks the good will of an employer, above all, to keep a job. Children obey parents, in the final analysis, because their livelihood depends on them. Men have a care to their language, observe the taboos, behave themselves not only because they wish to be well thought of but also because their well-being in general depends upon it. When these financial and familial supports are cut away, social prescriptions lose their bite.

The stage has been set, then, for the transformation of society. The social regulator which links freedom to responsibility has been disconnected. Business, in general, is ever more severely controlled and regulated. The Transformation Industry, by contrast, is enlarging its arena for freedom of action divorced from responsibility for the consequences.

The media has assumed much of the prescriptive authority once exercised by society. It proclaims, often subtly, approved attitudes, rewarding those who conform and ignoring or punishing those who do not. Generals cower before the lash of enraged media-men, resign their positions, and retire to obscurity. But the media is not society; it is, instead, one of the alien elements thrusting toward social transformation.

### **The Urge to Transform**

The Lifestyle or Transformation Industry is alien to American society in so far as and to the extent that it is bent upon transforming it. Some qualification is in order here. There is nothing inherent in journalism, in book publishing, in music making, or any other of these undertakings that would bend them toward transformation of society. Magazines may as readily defend as attack the existing social order. Education is, by nature, a conservative process whose main purpose has usually been imbuing the young with their culture and heritage. Undoubtedly, too, there are magazines and schools that have as no part of their purpose obstructing or transforming the social order. Almost any newspaper will have a considerable variety of material in it, much of which will have little or nothing to do with social transformation. Some



television programs may lovingly portray aspects of our culture and heritage.

Be that as it may, for a considerable while now a major thrust of the media, education, the information industries, and entertainment has been toward social transformation. Intellectual fashion has prescribed social transformation as a desirable goal. The idea that has the world in its grip has held sway in the United States as elsewhere. Intellectuals bent on transforming have often pictured and thought of themselves as being an embattled minority. That is a misconstruction of the actual situation. They are a majority, or at least determine much of the course of things, in the intellectual realm. But they are alien to the society and, as such, do occupy a potentially precarious position. The fact that they are continually attacking and undermining the received social arrangements makes them aliens.

To grasp what has been happening it will be helpful to get in mind as clearly as can be what a society is. A society begins to be formed when two or more people begin to interact on a regular basis. What we speak of as society emerges from the modes that are tacitly agreed upon and accepted for interacting with one another. The society consists of those who accept these modes of behavior. The modes consist of manners, morals, conventions, customs,

taboos, and traditions. Amongst civilized peoples, social prescriptions not only facilitate intercourse but tend to protect individuals in the enjoyment and use of what is theirs. (Those prescriptions that are amenable to it are often formalized as law.)

### **Social Conventions**

Man was made for society, wise men have said, and there is no end to the advantages which follow from social cooperation. Indeed, the advantages of association and cooperation are so obvious and great that societies will continue to be formed so long as there are people. Social arrangements exist for the purpose of enabling people the better to enrich themselves by interacting with one another.

However, there is a nether side to the relations between people. All interaction between people is potentially abrasive, fraught with dangers of abuse of some persons by others, and sets the stage for every harmful act that can occur. Society exists for the specific purpose of providing means for keeping relations among people smooth. The more intimate the relations among people the more potentially dangerous the situation.

Taboos take shape especially to govern and restrain intimate relations. Since sexual relations are the most intimate of all relations, it is

not surprising that taboos often are strenuously applied in this area. There is, for example, a near universal taboo against incest—a taboo which serves not only to abate the dangers of inbreeding but to protect the close family unit from the conflicts that would arise within it from sexual rivalries.

Social conventions tend to change with the passage of time. Sometimes, society gets religion, so to speak, professes very high standards, and is purified somewhat of its dross of accretions over the years. Social prescriptions change to deal with new conditions and new opportunities and dangers. Positive law often arises from social prescription, as well it should, but law is frequently too gross, precise, and inflexible for the complex and shifting shades of social prescription. But social change must be gradual, otherwise it is disruptive and confusing, thus failing to facilitate interaction or to protect individuals within it. A certain comfort within and accord with the rules of society is essential to the working of society.

### **Breaking Tradition**

Socialists regard the received social arrangements as a major detriment to their undertakings. Revolutionaries require that they be destroyed. Evolutionary socialists attempt to change them gradually by law so as to merge government

with society. At any rate, both agree that the whole complex of distinctions which society maintains must be broken down before man can be collectivized, communized or socialized. The received institutions, customs, and traditions provide a protective shield for the individual, a shield which must be broken before he can be melded into a mass.

The most drastic experiments with forced collectivization did not occur in Stalin's attempt to collectivize agriculture. They occurred in Soviet forced labor camps and in Nazi concentration camps. They were alluded to earlier in this work. They involved especially the uninhibited use of obscenities, profanity, and inducing the individual to violate various taboos. Alexander Dolgun, an American who spent years in Soviet prisons and labor camps, tells how when he was first put in prison he was subjected to a physical examination by a woman doctor who gave special attention to his private parts. This surely was not accidental, for it fit the general pattern of trying to break him down by removing the normal expectation of observing the social mores.

The most dramatic thrust of the Transformation Industry in recent years has been to break down or through the social prescriptions that have to do with the use of language and sex. Rampant public expression of obscenities became commonplace

in the 1960's. Novelists began to lard their works with just about every vulgar expression imaginable. Underground newspapers printed the theretofore unprintable. Magazines, even some of general circulation, began to do likewise. Even more profound in its impact was the use of obscenities in the speech of characters in movies. After all, reading is usually a private undertaking. But movies have public showings as a rule, and are usually made for that purpose. Nowadays, profanity and obscenities are regular fare in movies designated PG (meaning acceptable for the admission of children but parental guidance suggested).

Many sexual taboos have been ignored and violated with impunity. The most intimate matters are now publicly discussed, written about, and portrayed in picture magazines and movies. Many restrictions are still observed in family newspapers, television, and radio, but they are being broken down there as well. Explicit descriptions of sexual intercourse were only available in brown covers to discreet patrons a generation ago. What was not then conceived as properly printable is now shown in technicolor on wide screens in movies. If present trends continue, in a few years the family can gather round to watch vivid portrayals of bestiality, necrophilia, and incest, with some orgies thrown

in, on their home television sets. Such fare is already available on closed circuit television in hotels and motels.

### **Human Dignity Denied**

Decorum is the condition of peaceful public assembly. Good manners are the clothes the civilization wears. By the clothes we wear we signify our respect for the sensibilities of others as well as our own dignity. Propriety in the use of language preserves the communion involved in communication. Custom, tradition, and morality are not merely the ornaments, they are the lineaments of society.

My point is this. What occurred as concentrated dosage in Soviet prisons and forced labor camps and Nazi concentration camps is now being done in a much less concentrated manner on a national scale by the Lifestyle or Transformation Industry. The defenses of life, liberty, and property are being removed by the hammer blows on our sensibilities. The right to life depends upon the prohibitions against murder. Sensibility for others is the foundation of the taboo against murder. There are religious sanctions against murder, but the acceptance, observance, and appreciation of these depends upon sensibility as well. Obscenity, vulgarity, and depravity publicly displayed are indications of a profound loss of respect for man. Liberty for

such a man is no more than opening the gate and turning the beast out to forage at will. Such a man is no more worthy of property than would be a jackal.

### The Collectivizing of Man

The Transformation Industry is bent toward collectivizing us. It is stripping away from us our civility, our decorum, our good manners, our taboos, our customs, our traditions, and our individuality. Man must be reduced to be collectivized, his language reduced to guttery curses, his body reduced to its respective and undistinctive parts, and his culture to its meanest remains.

The process may be observed most directly by attending a Disco. What made dancing civilized is almost entirely missing: the breaks from song to song, the dance patterns changing with the number, the couples dancing together. The music, or noise, is continuous at the Disco; colored lights flash in psychedelic fashion; the music is devoid of almost anything except blare and beat; and couples are not easy to discern. It is an orgy of dancing. It is, at once, each individual alone and the whole a collective mass driven to a frenzy directed by the disk jockey.

It is easy enough to believe that many of those in the Transformation Industry know not what they do. Since much of the industry is highly profitable, there is reason to suppose

that many of those engaged in the business are not doing anything much but making money, at least so far as they are concerned. There is money to be made in pandering to man's baser desires, nor is there anything new about it. It is also true, however, that it is not necessary for those under the sway of an idea to know it. There is a kind of demonic urge to the egalitarianism implicit in the idea that has the world in its grip. Women must be the same as men, children the same as adults, all races the same, and each no higher than all others.

And, to prove it, we must all be disrobed. Here is a parable for our time, a parable that is factual, if the columnist, Bob Greene, who reported it, be accepted (*Atlanta Constitution*, May 19, 1978, p. 7-B). It seems that a photographer has put together a collection of his photographs which he calls "Dallas Nude." Charles R. Collum, the photographer, says that he took three and a half years on the project.

"My idea," he says, "was to show the city through its nude people. Dallas had the reputation as an uptight, conservative, banker-religious-middle-of-the-Bible-Belt city. I think that reputation was wrong. My pictures show Dallas being happy, innocent, exuberant, full of freedom." He accomplished this by photographing people from all walks of life—librarians, dental


assistants, optometrists, nurses, bank tellers, and so on—in the nude. "The soul of a city," Mr. Collum is quoted as saying, "is in its people. And people without their clothes on are more expressive than people who are dressed."

Mr. Collum is so impressed with what he has done with, or to, Dallas, that he is eager to do the same for other towns and cities in the United States. Indeed, he has in mind an even more ambitious project, Greene reports, and has approached the State Department about it:

I want to go to Russia and do "Moscow Nude." We were brought up to think that the Communists were bad people, were our enemies. But on a one-to-one level, I think the Russians are just as warm and wonderful as the people of Dallas. I think that "Dallas Nude" and "Moscow Nude" would go great together. Together, their message would be "Peace on Earth, good will toward men."

Why would such a notion strike anyone as plausible? Indeed, where would anyone get such an idea? Actually, the antecedents of Mr. Collum's idea are not difficult to trace. They are the progeny of Jean Jacques Rousseau, the spiritual godfather of our age. Strip away the cultural raiment, and man will emerge as a Noble Savage, Rous-

seau informed us. Man in the nude will be his natural, good self. This idea has worn a groove into the mind of an era. It is not necessary to read Rousseau to discover it; it is enough to breathe the fumes that emanate from the intellectual climate. The idea that has the world in its grip holds that man is naturally good but that he is deformed by his culture. Divest him of his culture, and the goodness will shine forth.

The Transformation Industry is under the sway of this idea. This is the demonic urge which impels its assault upon society, culture, manners, mores, and civility. There are quite an assortment of ways to go about it. A George Bernard Shaw comedy could go about it with style and verve. Nudity is a relatively innocent approach. The more powerful weapons are profanity, obscenity, vulgarity, and the vivid depiction of perversions. The record thus far shows that when the protective cover of culture has been removed, we are exposed to the more drastic forms of political power. It is a crucial part of the process of collectivization. 

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Next: 22: *The United States: A Bemused People.*

## LAW OF THE JUNGLE VS. THE JUNGLE OF LAW

THE PROBLEM of uncertainty is endemic to any business venture. The more uncertainty there is, the greater the risk for the would-be entrepreneur. A rational response to such uncertainty is to seek to reduce it through either an improvement of one's knowledge about, or an increase in one's control over, the conditions pertaining to a prospective field of endeavor.

This urge to rationalize the vagaries of the business environment has frequently been manifested in a resort to law as a means of controlling uncertainty. With laws to regulate the prices and supplies of a good or service and with the vast information-gathering resources of the government at hand, the number of uncontrolled or unknown variables in the uncertainty equation ought to be reduced.

Reasoning like this inspired the

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creation of the Federal Power Commission (FPC) in 1930. Its objective was to control various aspects of the energy industry and thereby promote business prosperity and social justice. The agency was given a broad grant of authority to insure its capability for a flexible response to changing conditions. Its rulemaking was restricted only by the proviso that its actions be "just and reasonable."

With all this "logic" going for it, it should come as no surprise that the government's venture into energy regulation has been a disaster. Rather than the certainty promised by the imposition of deliberated policy upon the erstwhile fluctuations of free market "jungle," the resort to regulation has piled confusion on uncertainty with a result that is often incomprehensible.

If the market treats you "unfairly," there's not much you can do about it. If you can't make a profit in your present trade, you change your occupation. You don't petition to

have the law of supply and demand set aside. Such impersonal "injustice" has no remedy. One might as well complain about the law of gravity. However, let the "injustice" come at the hands of an agency of the government such as the FPC and we have a whole new ballgame on our hands.

The "injustices" made by law can be unmade by law as well. The avenues open to the "victims" in these instances include recourse to all three branches of government. First, the "wronged" party can go to the legislature and get the law changed. This is, at best, a long-range option. While it cannot be neglected, it is not as promising as efforts to influence the decisions of the Commission itself. This may prove more effective on a cost/benefit basis, but it, too, is future-oriented. The most immediate avenue to relief is our third option: appealing the decision to the next echelon of government officials, in this case, the courts.

Reliance upon the judicial system to "right" the "wrongs" of the FPC has been largely misplaced. The erratic gyrations of the Commission's attempts to grapple with forces of supply and demand have been matched by judiciary inconsistency. The jurisdictional issue, to take just one area of concern for those interested in what to expect in the way of energy regulation, has been "decided" three different ways since

World War II. In 1946, the court settled on concurrent federal and state jurisdiction.<sup>1</sup> By 1963 the courts had shifted to a position upholding a doctrine of federal supremacy.<sup>2</sup> It was only two years later that the whole question was unsettled once and for all by a declaration that the precise boundaries between state and federal jurisdiction could only be adjudicated on a case-by-case method.<sup>3</sup>

This unfortunate course of events has effectively multiplied the uncertainties faced by business firms attempting to deal in services regulated by the FPC and various state agencies. Whenever the rules promulgated by these competing regulatory authorities differ, the prospect of litigation in order to resolve the jurisdictional boundary is virtually inevitable.

The potential for confusion is by no means limited to disputed jurisdiction. The history of judicial interpretations of FPC powers is not of a nature to relieve business anxieties over what rules will be applied even in situations clearly within the realm of federal control. As the law now stands, the FPC may (1) modify existing contracts when it deems such action to be in the public interest,<sup>4</sup> (2) make rate revisions retroactively,<sup>5</sup> (3) change its policy at its own discretion,<sup>6</sup> (4) define the phrase "just and reasonable" in different terms on different occasions,<sup>7</sup>

(5) decide who shall bear the burden of proof in any given case,<sup>8</sup> (6) require individual companies to suffer losses.<sup>9</sup>

It should be apparent by now, that the attempt to supplant the "chaos" of the unregulated market with a system of "just and reasonable" man-made rules has produced disconcerting consequences for businessmen, investors, and ultimately consumers. In the less than 50 years since the creation of the FPC, the courts have bestowed their blessings on at least eleven different pricing formulas for natural gas.

None of this has been very helpful in solving our energy "problem." In place of the law of supply and demand (which a court declared non-binding on FPC policies<sup>10</sup>), we have instead a shifting collage of rules and regulations. Far from reducing the number of uncontrolled variables in the uncertainty equation, this collage has added new dimensions of unpredictability to the basic task of meeting consumer needs with scarce resources.

The ambiguity of the initial enabling legislation must bear some of the blame for the resultant mess. The vague grant of power bounded only by the undefined structure that its exercise be "just and reasonable," is an invitation to contentious wrangling.

A more fundamental error, though, is the mistaken belief that

the problems of material sustenance can be overcome by legislative fiat. The energy problem is the product of, on the one hand, resource scarcity and the technical difficulties of coping with such scarcity, and, on the other hand, the usefulness of energy products in satisfying ever-increasing human wants. In short, it's the same old supply and demand problem that has confronted mankind from the beginnings of the species. The only way it has been adjusted to our satisfaction has been through production. And, disappointing as it is, the invention of law isn't, hasn't been, and never will be a substitute for hard work. ☉

### —FOOTNOTES—

<sup>1</sup>*Memphis Natural Gas Company v. McCannless*, 194 S.W. 2d 476.

<sup>2</sup>*Northern Natural Gas Company v. State Corporation Commission of Kansas*, 83 S. Ct. 646.

<sup>3</sup>*People of the State of California v. Lo Vaca Gathering Company*, 85 S. Ct. 386.

<sup>4</sup>*United Gas Pipeline Company v. Mobile Gas Service Corporation*, 1956, 76 S. Ct. 373

<sup>5</sup>*Mississippi River Fuel Corporation v. Federal Power Commission*, 1960, 281 F 2d 919.

<sup>6</sup>*Atlantic Seaboard Corporation v. Federal Power Commission*, 1968, 404 F 2d 1268.

<sup>7</sup>*City of Chicago v. Federal Power Commission*, 1971, 458 F 2d 731.

<sup>8</sup>*Commonwealth of Pennsylvania v. U.S.*, D.C. Pa. 1973, 361 F Supp. 208.

<sup>9</sup>*Federal Power Commission v. Texaco*, D.C. 1974, 94 S. Ct. 2315.

<sup>10</sup>*Southern Louisiana Area Rate Case v. Federal Power Commission*, CA Tex, 1970, 428 F 2d 407.





WITH the exception of the weather, probably no subject is more complained about than taxation. Almost everyone feels that our tax system treats him unfairly, for one reason or another. The poor say that wealthy persons and businesses should pay more than they do, and the latter argue that the taxes they already pay are economically counterproductive. Politicians are forever promising tax "reforms" and legislative bodies debate the desirability of an endless variety of deductions, credits, exemptions and rates. The overall tax scheme which results is not predicated upon any principle, but rather is capricious,

based only upon the respective success of each interest group in influencing the political process.

This, I submit, is an undesirable state of affairs. In pace with the rise of mass democracy, our tax system has become an institution for plunder, prodigality, and the gratification of envy. Many a shrewd politician has taken the easy road to power of promising the voters governmental services or subsidies paid for in the main by somebody else. The one discernible principle of our tax system, that of "progressivity," is inherently unjust, as it compels some to subsidize others' use of governmental services.

What we have is the ugly spectacle of a societal gang war, each group attempting to manipulate

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government so as to enrich itself at the expense of the others. This is possible—indeed, inevitable—because our tax system is not rooted in principles of *justice* (as are, *e.g.*, our property and tort law). But it need not be so. There is, I believe, one principle, and only one principle, upon which taxation could be based which avoids injustice to any citizen. It is the same principle which underlies all market transactions: You pay for what you get.

### The Rights of Man

The view one takes of man's rights will inform his judgment on the moral defensibility of a system of taxation. I do not propose here to argue at length for the position I take, as that has been ably done elsewhere.<sup>1</sup>

Individuals have rights. Locke distilled the fundamental rights to these: life, liberty, and property. Each person has a right to be the master of his life, the only life he has. It may not be taken from him, and neither may it be made the tool of others. That property which justly comes into his possession is his to do with as he pleases—consume it, save it, exchange it, or give it away. The dominion of an individual over property excludes any rightful claim to that property by another. As Pro-

fessor Nozick writes, "The particular rights over things fill the space of rights, leaving no room for general rights to be in a certain material condition."<sup>2</sup> This concept of man's rights is deeply embedded in our religious heritage, and was embodied in the earliest forms of the common law.<sup>3</sup>

Let us agree that man has a right to enjoy the fruits of his labor. Can there coexist with this right such alleged rights as the "right to decent housing" or the "right to an education"? The answer is no. As soon as an agent of compulsion, usually the state, takes any part of the fruit of one's labor from him in order to give effect to these other so-called rights, the primary right is violated. Then we can no longer say that man has a right to enjoy the fruits of his labor, but only that man is permitted to enjoy that which the state does not demand be put to purposes of its choosing. The degree of the taking does not matter. The right is vio-

<sup>2</sup>*Anarchy, State and Utopia*, p. 236. The author cannot recommend this brilliant work of political philosophy highly enough.

<sup>3</sup>Interestingly, early Anglo-Saxon criminal law was actually tort law in nature. That is to say, the state demanded that restitution be made by criminals to those who had suffered at their hands, but itself exacted no punishment. One may wonder whether the contemporary state deprives the victims of crime of a property right when it incarcerates those who have committed offenses against their persons or property, thus making restitution difficult or impossible.

<sup>1</sup>The reader may wish to consult in this regard F. A. Hayek, *The Constitution of Liberty*, especially chapter 2.

lated whenever an owner is compelled to part with any portion of his property against his wishes.

### The Nature of Taxation

Taxation is the price we pay for government services. Government takes (or keeps) from us an amount of property (money), calculated by various formulae, each year. During that year, government does certain things for (or to) its citizens. Each of these services has a cost per citizen, although some would be difficult to account for with certainty. Under our present tax system, however, there is no necessary relationship between the size of one's tax bill and the cost of the government services he has used.

If you go to get a haircut, the price you pay reflects the costs of the barber's time, his tools, rent on the shop, and so forth. It is deemed just that the recipient of the haircut should pay for these costs incurred on his behalf. Compare this with our tax system. Taxes are computed on the basis of income, wealth, purchases, and other measures. There is no attempt whatever to charge the costs of government to those people for whom they were incurred. Unavoidably, some taxpayers must pay more than the value of the government services they received while others pay less (or not at all). This system is undesirable for a number of reasons having to do with efficient

use of resources, but I wish to focus on the reasons why it is *immoral*.

### Taxation and Morality

First, our tax system is immoral because it compels some individuals to purchase government services which they do not desire. For example, many Americans contribute involuntary support to public schools even though neither they nor any children of theirs make any use of these facilities. There are also many citizens who drive very little or not at all, yet have no choice but to help underwrite the costs of our highway network. And there are those who, although they do not care for such things, are patronizing the fine arts through governmental subsidies.<sup>4</sup> In this, their rights are violated because they are deprived of the freedom to choose how they will dispose of their property.

Secondly, if taxation requires us to purchase services we do not want (or want less than other things we might have bought), a corollary is that we are compelled to subsidize

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<sup>4</sup>The National Endowment for the Arts recently awarded a \$6,000 grant to the producer of a film showing large rolls of crepe paper being tossed from an airplane and floating back to earth. This vicariously generous bit of artistic patronage earned Senator Proxmire's "Golden Fleece of the Month" award. See *National Review*, Sept. 30, 1977, p. 1090. Many other fantastic boondoggles are recounted in Donald Lambro's *The Federal Rathole* (Arlington House, 1975).

services used by others, and this too is immoral. Payments for services we do not use, or use only to a small degree, usually go to reduce the amount that more extensive users need pay. For instance, those of us who make considerable use of public libraries are relieved of paying the full cost of our usage because of the tax dollars taken from occasional and nonusers which go to defray the expense. It is a violation of those rights which we posited above to compel someone to support another's desires or even needs, yet our tax system is a hopeless maze of involuntary subsidizations of some by others. The most obvious example of how the tax system is used to compel one person to make purchases for another is the phenomenon of transfer payments. Here, there is no governmental service at all, merely the taking of money from one person thought not to need it, and giving it to someone else. Such acts of robbery by indirection can occur only because our tax system does not link payments to benefits received.

Neither of the above objections to the morality of our tax system depends upon the existence of a "progressive" rate structure. If the government merely figured its costs and divided them equally among all taxpayers, we would object for the reasons given above. Progressivity is a separate issue, and must be re-

garded as a third indictment against our tax system.

We have had it drummed into us for so long that taxation should be based upon "the ability to pay" that this axiom is hardly ever questioned. (We might call it the Willie Sutton principle of taxation—"Why do you rob banks?" "Because that's where the money is.") Yet, upon examination, it cannot stand under our view of the rights of individuals.

When we say that taxation should be based upon "ability to pay," we are saying that two persons who use the same governmental services, and in the same amount, should pay different amounts of tax if their incomes are different. To illustrate the point, imagine two potters who live next door to each other. They place identical demands on governmental services in 1977 (use of roads, schools, national defense, *etc.*) and both pay the same amount of tax because they sold the same number of pots. Then, in 1978, one of the potters gets ambitious and produces and sells 15 per cent more pots than in the prior year. His neighbor produces the same number as he did in 1977. Their lives remain the same except that the ambitious potter now buys steak more frequently than hamburger and drives a new car instead of an old one. Oh yes, and he also has to pay the government more in taxes. But why should he have to? Why should he now

have to pay, let us say, \$1.10 per unit of service while his neighbor still pays only \$1.00 per unit? There is no defensible ground for the discrimination. If the government was previously extracting a proper amount from our ambitious potter to cover the cost of the services he used, it now is taking too much; it is demanding more than the services are worth. That is unjust. I conclude that "progressivity" is a bad principle of taxation in that it charges different people different prices for the same service.

### **A Neutral Principle**

We have seen that our present tax system is unjust in that it violates the rights of many citizens. What we desire is a tax system which will require the government to respect the rights of each, to remain neutral among taxpayers. I submit that such a system can be based upon this, and only this principle: The amount of tax one pays should equal the cost of providing the services he uses. In the market, there is only one price for a good or service, not a sliding scale based upon some notion of ability to pay, and no one is required to buy things he does not want. Government should be constrained to follow this principle in charging for its services.

How could this be put into practice? Wherever possible, government should finance its operations

through user fees rather than taxes. A good, though not perfect example of what I have in mind is found in the U.S. Postal Service. (Of course, a large part of its budget comes from taxes and to that extent is immoral in compelling some people to subsidize others' use of the service, but we will ignore that. Ignore also the fact that there is no reason why the government should deliver the mail.) The price of a stamp is the same for each buyer, regardless of income. If you do not send any mail, you do not have to buy any stamps. Thus, this method of financing the service closely resembles a market transaction.

Other services could be treated similarly. Roads could be paid for through tolls and other forms of user fees, and schools (if we must have public education) could be paid for solely out of funds collected from those who use them. If put to the task, man's ingenuity would be able to devise means of accurately accounting for the costs of government-provided services and charging them back to those who caused them to be incurred.

There are, however, many elements of a government's budget which relate to administration and enforcement of the law rather than the provision of a service per se, and these create analytical difficulties. How, for instance, do we allocate to each citizen his just share of the cost

of the Presidency, the Congress, or the Defense Department? Do we assume that everyone benefits equally from these expenditures and divide them accordingly? Or do we assume that persons with higher incomes or greater wealth benefit more from these expenditures, and therefore charge them more? To a considerable extent, these expenditures relate to the protection of property, and the proper analysis would seem to focus on how the market would handle analogous services. Premiums for property insurance contracts are largely a function of the value of the property covered. Therefore, an allocation of costs based upon wealth might be optimal. I do not claim that no better formula is possible, but propose the wealth tax idea merely to demonstrate the nature of the analysis which should underlie our approach to the just allocation of tax burdens.

The largest item of governmental spending in this country would be dramatically affected by the adoption of this principle. The item is transfer payments; they would cease. To see why, look to the principle. You pay for what you get. To get a dollar from the government, you would have to pay a dollar, plus administrative overhead. Obviously, there is no point in doing that. Many will think it unspeakably cold-hearted to suggest that the government not give anything to the

needy, but it must be answered that the best policy is to rely upon individual charity and never allow the idea that the level of one's income is a matter for political consideration to gain a foothold. Bastiat was certainly correct when he wrote in *The Law* that government should not be allowed to do any act which would be a crime if done by an individual citizen. We do not permit even the neediest to steal. Neither should we permit the government to play Robin Hood.

### The Free Rider Argument

Some will object to my analysis on the ground that since most people benefit in some way from governmental expenditures, it is not unjust to require them to pay for these benefits. For example, it is said that everyone benefits from the system of public education in this country because better-educated people improve society as a whole. I contend, however, that the free rider argument does not justify compulsory tax support for services one does not use.

In the first place, it is just too easy to *assume* that everyone is better off as a result of the provision of some governmental service.<sup>5</sup> Who among us is so all-knowing that he can

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<sup>5</sup>Regarding the supposed benefits of public education, the reader should consider (or reconsider) E. G. West's article, "The Perils of Public Education", in the November, 1977 *Freeman*, p. 681.

make the judgment not only that everyone benefits from some service, but what the *extent* of that benefit is in each case? No one, I answer.

Secondly, we should be extremely hesitant to allow the making of unilateral contracts. Even if you clearly benefit from an expenditure by someone else, we should prefer that you not be compelled to help defray the cost. Allowing others to direct in some measure how you spend your money by making you pay for "benefits" for which you have not contracted might very well deprive you of funds you need for things of greater value to you. It is true that an elderly couple might derive some benefit from public education, but requiring them to pay for that benefit for which they had not contracted deprives them of money needed to pay medical or utility bills. Everyone has his own hierarchy of values, and it is wrong for the government to demand that its hierarchy take precedence over the individual's.

Finally, people usually *do* pay for services rendered by others, albeit indirectly. Assume for a moment that public education does yield a benefit to all of society. *How* does each person benefit from this increase in erudition? Presumably, by the better products and ideas which educated people can produce. But unless one lives his life as a self-sufficient hermit, he will eventually

pay for the educational component of the products he uses and ideas he absorbs, through the operation of the price system. Ph.D. chemists do not work for free—their salaries, part of which is a return on their educational investment, are reflected in the price of the things which their research makes possible. Thus, there is no free ride, and this objection fails.

### Some Advantages

Not only is a system of taxation requiring citizens to pay taxes only to the extent of benefits received consonant with man's rights, but it would yield us some significant tangible advantages as well.

One benefit would be that no longer could government use taxation as a tool for social engineering or economic tinkering. The dense pages of the Internal Revenue Code are full of deductions and credits for use of money which the state wishes to encourage.<sup>6</sup> Since government is to be the servant of the populace and

<sup>6</sup>It has been persuasively demonstrated that federal tax policies are in large measure responsible for the plight of the large northern cities. The investment tax credit has encouraged firms to build new plants in uncrowded southern and western states, and their movement has been facilitated by the expansion of the interstate highway system, paid for in the main with tax dollars taken from the already-developed areas in the Northeast and Midwest. See, "How Federal Policies are Hurting the Cities", *Business Week*, December 19, 1977, p. 86.

not its master, it is wrong for it to attempt to direct how we spend our money. Moreover, such interferences lead to inefficient use of resources. The deductibility of mortgage interest unjustifiably encourages home ownership; the deductibility of bond interest unjustifiably causes corporations to favor debt financing over equity. These interferences would be at an end if government had to link taxes to the provision of services, rather than to income or some other irrelevant measure. For instance, "business expenses" (lunches, travel, entertainment, etc.) would be immaterial to a company's tax bill if it were taxed on the basis of the cost of governmental services it used; thus, there would be an incentive to economize on these currently deductible items.

Another benefit would be that it would tend to get government out of the business of providing services appropriately left to the market. If people had to pay the full cost of using government services, they would quickly see how inefficient government is, and would turn to (or demand to be allowed to turn to) alternatives.

Finally, and perhaps most importantly, taxation based on benefits received would eliminate the government's motive for inflating the currency. Inflation is governmental additions to the money supply. (Ris-

ing prices are a consequence.) Governments resort to inflation because they desire to spend money in excess of the amount they dare to collect in taxes. Now suppose that government were operated as a service company, requiring all who partook of its services to pay for what they had used. Inflation would be impossible because government would *have* to balance its expenditures and receipts. With each person paying only the cost of providing him with services, there would no longer be any need, or motive, for government to resort to money creation to balance its books.

### Conclusion

Freedom would be greatly expanded in this country if government could not compel us, through the tax system, to devote our money to services we do not want, and to subsidize services used by others. These annoyances frequently are part of a deliberate plan to redistribute wealth, which is inherently immoral; but even in the absence of redistributionist schemes, a tax system which does not base the amount of tax one pays on his use of government services is unavoidably unfair to some citizens.

The only tax system which would require government to treat each citizen neutrally—not forcing anyone to act as a tool for someone else more favored by the government—is



one which embraces the concept that one should pay only for the cost of those services he actually uses. It is wrong to force one person to purchase government services for another, just as it is wrong to force him to purchase anything else for another. If a wealthy person is to pay more tax than a poor person, it should be because he causes the government to incur larger expenses on his behalf, and not simply because he has more money.

When people make purchases in the market, they expect to pay for what they get. They have no expectation that others will pay part or all

of the cost for them. If it is just that each person pay the full cost of a haircut or movie ticket, then it is also just that he pay the full cost of those services which the government provides him. Others should not be expected to pay his way. Our present tax system is unjust in that it often compels one person to subsidize the government used by another. Government would have to remain neutral among its citizens if we taxed strictly on the basis of the benefits received by each person. Any other system becomes a breeding ground for injustice and social strife. ⊕

### Progressive Taxation

PROGRESSIVE TAXATION of income by the federal government, which is currently practiced in the extreme, provides, first, that many voters of small income are either exempted entirely from paying, or pay very little, and, secondly, that successive increments of larger incomes are taxed at progressively increased rates that become confiscatory.

There is no justification in morals or in the principles of individual liberty for progressive taxation. It is the simple looting through law of the more productive by the more numerous but less productive. Its appeal is demagogic, and its result is communism, which in turn is but a transitory stage in the evolution away from liberty into dictatorship. The endorsement of progressive taxation is, knowingly or unknowingly, the endorsement of communism, and sincere endorsement of progressive taxation, motivated often by generosity, is unwittingly one of the worst forces undermining individual liberty in America.

IDEAS ON



LIBERTY

# TEXTBOOKS ON TRIAL

It was a case of "a little child shall lead them." Mel and Norma Gabler, living in Texas where Mel worked in the oil business, were quite happy with the public school system. They trusted the textbooks used by their three sons "almost as much as they did the Bible." But one day Jim, their oldest boy, brought a copy of *Our Nation's Story*, by Laidlaw Brothers, home and handed it to his dad. There was nothing in the book about restrictions on the federal government, and nothing about rights and freedoms retained under the Constitution by the people and the states. It was as if the Bill of Rights had never been written.

That set the Gablers off on a hunt. They looked into other history texts used in the Texas schools. It distressed them to see George Washington downgraded and Patrick Henry

("Give me liberty or give me death") ignored. In three of the economics textbooks which Mel Gabler dutifully read there was no effort to present fairly the American free enterprise system. The questions in most of the economics texts seemed designed to "subtly move the thinking of the student to the left."

**Textbooks on Trial** by James C. Hefley. Foreword by former Congressman John Conlan. Published by Victor Books, 1825 College Avenue, Wheaton, Ill. 60187, \$6.95.

The Gablers had played a part in the local Parent Teachers Association, but it was "ritual" work. Believing that school personnel "knew best," they had not questioned the

work of the Texas Education Agency in recommending appointees to the State Textbook Committee. When they asked about parents' rights in the matter of influencing textbook choices, they were told they might appear before an investigating committee in the State capital at Austin. Norma went to Austin and made a speech, her knees "jellied" and her voice quavering. When son Jim, who had accompanied her, asked for the right to "speak as a student" who had been afflicted with the questionable texts, he caused a commotion. The legislator in charge of the hearing uttered a "Well, uh, we've never had a student speak before." Jim was put off for a week, but he returned and presented his analysis of a book that had left him with the impression that, in the American Revolution, "Washington did little more than Baron von Steuben or Benedict Arnold." Reporters described Jim as a "gum-chewing East Texas kid," and quoted liberally from his remarks.

When the Gablers first took their cause to the investigating committee in Austin, they didn't know they were embarked on what was soon to become a lifetime crusade. There were so many school books to read, and nobody seemed to care very much that it took the tenacity of a leech to get early copies of the texts from the "system" that was debating their acceptance for use. The job of

questioning the assumptions governing the recommendations of texts involved a thousand subtleties.

The Supreme Court interpretation of the Constitution forbade the teaching of religion in the schools. How, then, to acquaint students with a national heritage that stems, in good part, from the eighteenth century acceptance of the Christian ethos? The right of parents to oversee the moral training of their children would seem to be incontestable. This would justify parental objection to the use of pornography in the classroom. But when is literature pornographic, and when is it simply realistic? And what about "situation ethics"? How is one to teach a student to think if he is not to ask questions about the absolute and the relative? Darwin is part of scientific history, and evidence for evolution is written in the rocks. How to square this with the fact that there are gaps in the assumed evolutionary sequence? Even though the Biblical story of Genesis may be questioned in detail, the Creationists have not been routed. Indeed, evolution may very well be the Creator's way. But how do you give the theory of Creation, whether it be special or evolutionary, an equal standing in school biology courses without mentioning God, which gets us back to the Supreme Court's ruling that religious instruction in the schools is verboten.

### Fairness and Objectivity

In pushing their crusade for better textbooks in the public schools, the Gablers have had to rely on good taste and common sense. They have combined humor and persistence. In telling their story in *Textbooks on Trial*, James C. Hefley has caught the essence of their personalities. They are neither dogmatic nor fanatical. They don't expect miracles. They would be satisfied with a balance. Norma, speaking to Mel, put it this way: "It's our children, our tax money, and our government . . . If textbooks can't teach Christian principles, then they shouldn't teach against Christianity." As for economics, the Gablers think it is again a question of fairness and objectivity. They expect the Keynesians to have their say, but when a single textbook, McGraw-Hill's *Economics for Our Times* (1963), came out with "one page on the free enterprise system, six pages on socialism and Communism in which it defends liberal socialism, and two chapters on Big Government," it seemed that "objectivity" was getting the worst of it.

For years the evaluation of textbooks was an after-hours moonlighting proposition for Mel Gabler. Norma had to do the traveling and the public speaking. But now, with his early retirement from the oil business, Mel has turned to full time work with Norma in running their


foundation, Educational Research Analysts. Their main business continues to be with Texas school boards and the Texas Commissioner of Education, but they do advisory work for concerned parents everywhere. During the controversy in West Virginia over textbooks they helped the embattled citizens of Kanawha County present their case for texts that would not "demean, encourage skepticism, or foster disbelief in the institutions of the United States of America and in the Western civilization." Although the country may have gotten the impression that a bunch of West Virginia hillbillies were trying to "censor" good literature in the mountain schools, the truth is that the West Virginia parents had a good case. Time-tested literary classics had been crowded out in favor of books whose obscenities appalled hardened newspaper editors when they were asked to print some samples in a full-page advertisement.

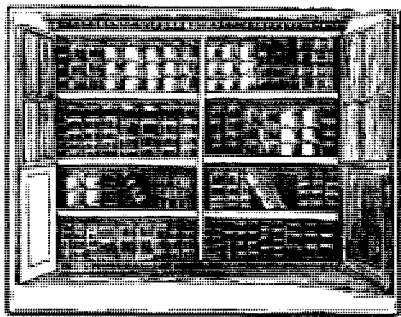
### A Vexing Problem

Philosophically, the Gablers might favor private schools over public. But in Texas, which is where the Gablers were fated to live, they were confronted with the fact that there are few private schools. For their own three sons the Gablers had a choice: they could teach them at home, or they could fight what they call "the self-anointed

system of secular humanism" in the public schools. If, like the late Frank Meyer, they had chosen to teach their own children everything from reading to mathematics, they would probably have made a success of it. But this would not have solved the problem for other Texas parents.

Although the state, in public education, is not to be trusted, Mel and Norma Gabler think the pendulum is swinging their way. Says Norma, "disgusted parents" are calling everywhere for "going back to the basics—learning skills, traditional math, phonics, morality, patriotism, history that is really history, science that is science, and fair play for free enterprise economics."

The question is how to sustain embattled parents in their "disgust." Mel and Norma Gabler are giving it a good try, but what they really need is a wide revival of private schools to provide a competition that will force the public educators' hands. 




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## WELFARE: THE POLITICAL ECONOMY OF WELFARE REFORM IN THE UNITED STATES

by Martin Anderson

(Hoover Press, Hoover Institution, Stanford University, Stanford, Calif. 94305)

251 pages ■ \$10.00

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*Reviewed by Henry Hazlitt*

A FEW OF US, over the last dozen years, have attacked the proposal of the guaranteed income and the "negative income tax" in its many guises; but it has remained for Martin Anderson of the Hoover Institution to devote a whole book to the subject, and to do such a thorough job of theoretical and factual analysis that it would seem hereafter impossible for anyone with a candid and open mind to read it and still take the guaranteed income seriously. Dr. Anderson's book can now stand as the definitive refutation.

Anderson brings to his task a triple advantage. He is first of all a first-rate academic economist. Second, he was himself once a bureaucrat. He was Special Assistant to President Nixon and a consultant to President Ford in the development of the Family Assistance Plan and the Income Supplementation Plan respectively. He knows how bureaucrats work, propagandize, and compile their data.

And finally, what is so rare among

academic economists, he writes clearly, simply, incisively and with flavor. Frequent sentences relieve the tension of following his close analysis, such as: "In the sea of dark gray and blue that surrounded Nixon, Moynihan, in his cream-colored suit and red bow tie, gleamed like a playful porpoise."

### **The Arguments Assembled and Fully Documented**

Anderson goes about demonstrating his case carefully and systematically. Each of his eight chapters is preceded by a like-numbered "thesis," which he then proceeds to demonstrate in almost Euclidian fashion.

His first thesis is that the "war on poverty" that began in 1964 has been won; that the growth of jobs and income, combined with an explosive increase in government spending for welfare and income transfer programs, has virtually eliminated poverty in the United States. In showing this, he is obliged to refute the influential findings of the Bureau of the Census that in spite of the hundreds of billions of dollars thrown at the poverty problem, there were 26 million persons, or 12 percent of the population, still below the poverty level in 1975—almost as many as when the "war on poverty" began. With the help of his own analysis, and of expert testimony, Anderson shows that the Cen-

sus estimates are wildly inaccurate—one reason among others being that the Census estimates completely ignore transfers in kind. "People are not even asked," he writes, "if they received food stamps, live in public housing, or are eligible for Medicaid." Over \$40 billion a year, Anderson points out, is spent by the federal government alone on such programs.

His second thesis is that the virtual elimination of poverty has had costly side effects—the most important of which has been the almost complete destruction of work incentives for the poor on welfare. In many cases families make almost no financial gain when the breadwinner works instead of staying on welfare. To cite a single instance, a Tennessee father who is eligible for food stamps and the unemployment insurance maximum gains only \$4 a week by taking a part-time job paying \$75 a week. As even the Joint Economic Committee of Congress pointed out in 1972, current government programs discourage work by imposing "the equivalent of confiscatory tax rates" on the resumption of work.

### **Spending Cuts Advocated**

Anderson's third thesis, based on various opinion polls, is that the overwhelming majority of Americans favor welfare programs for those who cannot care for them-

selves, while at the same time favoring large cuts in welfare spending because of their strong belief that many welfare recipients are cheating. A guaranteed income is flatly opposed by a two-to-one margin.

His fourth thesis is that the clamor for radical welfare "reform" comes essentially from a small group of committed ideologues who want to institute a guaranteed income under the guise of welfare reform.

His fifth thesis is that the institution of a guaranteed income will cause a substantial reduction—perhaps as much as 50 percent—in the work effort of low-income workers, and that such a massive withdrawal from the work force would have the most profound social and economic consequences. His estimate of this withdrawal from work is based not only on theoretical considerations, but on what happened historically (in the Speenhamland period of 1795 to 1834 in England, for example), and what various factual studies show has already been happening today.

His sixth thesis is that any variety of a guaranteed income is politically impossible; that no radical welfare reform plan can be devised that will simultaneously yield minimum levels of welfare benefits, financial incentives to work, and an overall cost to the taxpayers that are politically acceptable. Anderson's elegant

demonstration that when any two of these three basic elements of radical welfare reform are set at politically acceptable levels, the remaining element becomes unacceptable, is perhaps his most original contribution in this book.

### **A Debatable Point**


His seventh thesis is that practical welfare reform demands that "we build on what we have"—that we reaffirm our commitment to the philosophical approach of giving aid only to those who cannot help themselves, while abandoning any thoughts of radical welfare reform plans that will guarantee incomes. This is the only thesis in Anderson's book about which this reviewer would have some reservations. I agree entirely that we should abandon the "guaranteed income"—the unconscionable idea that all citizens have the right to be supported by the government, regardless of any effort they may or may not make to support themselves. But I think that Dr. Anderson neglects or underestimates the grave problems we have already created for ourselves by the mixed, haphazard, duplicative, and extravagantly costly relief system we have now built up.

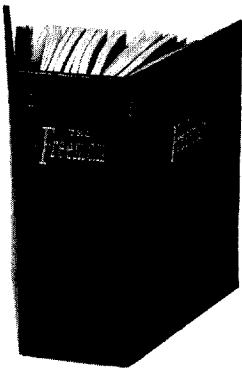
Anderson's final thesis deals with President Carter's welfare reform plan, which he first presented in May of 1977, accompanied by statements that it would add only \$2.8

billion to previous welfare costs. Anderson finds that the program would add nearly 22 million more Americans to the welfare rolls (making the ultimate total some 66 million); that the federal cost of welfare would actually increase by about \$20 billion a year, and that most of that added money would go to families with incomes above the poverty level. It would act as a serious disincentive to work. Though presented as a "simplification," it would be far more complex, require more welfare workers, and be more difficult to administer than the current welfare system. "It is a poten-

tial revolution of great magnitude that could result in social tragedy."

In an appendix Dr. Anderson lists and spells out in detail no fewer than ninety-one social welfare programs operating in 1974. Nobody knows exactly how many more have since been added.

I have been able to give only the sketchiest outline of the wealth of theoretical and factual analysis to be found in this book. But if one conclusion emerges above all others, it is that would-be reformers must abandon completely their search for any utopian solution to welfare problems. 



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The availability of natural gas in the U.S. depends on a natural (market) price.
- How Safe Is Your Bank?** **Hans F. Sennholz** 589  
Some of the major banks face serious problems of malinvestment as inflation rages.
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The importance of restricting government to the preservation of economic freedom.
- Book Reviews:** 632  
"The Crime and Punishment of I. G. Farben" by Joseph Borkin  
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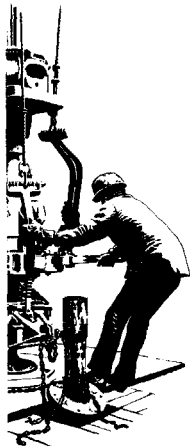
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Carlos Henkel and  
Robert Poole, Jr.

# HOW TO BREAK UP OPEC

## *Myths and Realities of Gas Deregulation*



DEREGULATION of the price of natural gas has been this year's hottest energy issue. Despite a campaign pledge to abolish federal price controls, President Carter subsequently urged Congress to extend the controls to the unregulated intrastate market. He also called deregulation a "rip-off" of consumers, and urged Congress not to be swayed by oil and gas industry lobbyists.

Yet the facts about natural gas are so much at variance with the impression one gets from politicians and television commentators as to be almost unbelievable. The fact is that there are vast quantities of gas

available in the United States—enough to break the back of the OPEC cartel—if only regulations did not prevent its being produced. And deregulation will very likely end up costing consumers *less* than any of the alternatives now being considered. Congress—and the TV commentators—continue to discuss the issue as if these facts were not available. Yet, as we hope to show in this article, all the necessary information is, and has been, readily available.

### **Regulations and their Consequences**

Natural gas availability first took on the air of a "crisis" during the deplorable shortages of the winter of 1976-77. We say deplorable for several reasons: not only the human misery that resulted from a lack of

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heat, but also the loss of jobs, production, and income (which means a decrease in the standard of living for all of us). Most of all, it's deplorable because it wasn't really necessary.

In 1974 the Federal Power Commission (FPC) warned that, other things being equal, the United States was in danger of running out of natural gas.<sup>1</sup> Gordon K. Zareski, chief of planning and development at the FPC's Bureau of Natural Gas, has pointed out that while drilling almost doubled in four years, from 22.6 million feet in 1971 to 41.9 million feet in 1975, additions to reserves remained *below* annual consumption every year.

Part of the problem is that deeper wells must now be drilled to obtain gas. Wells three miles deep are now common in Texas and Oklahoma. It costs \$3 million to drill a 20,000-foot well in West Texas. Offshore wells, though averaging only \$1 million to drill, take five to six years to get into production. Fewer large gas fields are being found these days, and production peaked at 23 trillion cubic feet (tcf) in 1974, falling to about 19 tcf in 1977.

The key measure in any discussion of gas supplies is "reserves." Proved reserves are estimates of what is available from developed reservoirs, *assuming present prices and current technology*. Several conclusions follow directly from this definition.

First of all, reserves are, by definition, dependent on the price at which gas can be sold. This is easy enough to see. Amounts of gas in deposits currently being exploited can be sent to the pipelines at current prices. But what about gas deposits that are harder to get at, or those reasonably assumed to exist but not yet being exploited? Obviously, to deliver *this* gas to the pipeline will cost more than delivering gas already in production. And if the cost exceeds the price the government allows the producer to charge, then that excess cost must either be absorbed by the producer (and his stockholders)—or, more likely, that gas will simply not be produced, at current prices.

Second, if "current prices" are allowed to increase, then "proved reserves" immediately increase. Why? Because those gas deposits too expensive to exploit before can now be produced at a profit. No matter what your opinion of producers might be, a second-grader could tell you there is no profit in selling lemonade at 5¢ a glass if it costs you 7¢ to make it.

Third, development of new technology is expensive. Without adequate incentives, a producer may spend some funds on developing new technology, in the hope that in the long run a better or cheaper production method will result. But when everyone from the President to the corner girlwatcher is shouting

"crisis" then "in the long run" is not good enough. The development of new technology should receive high priority when price and tax incentives are being discussed. No other incentive will generate the capital investments required, because new capital is *not* going to flow to subsidize enterprises that must sell below their cost. If new capital did this, our country would be out of capital in a very short time.

And just to put to rest another myth, who is it that defines what amount of proved reserves exist? The producers, trying to force higher prices, as most people believe? No, these estimates are prepared by the American Gas Association, which is an organization of *distributors*, not producers. They are people who *pay* the wellhead price, not those who charge it. The AGA Committee on Natural Gas Reserves is made up of eight representatives of pipeline and distribution companies, three from major oil companies, and representatives of the Department of the Interior, the Bureau of Mines, the FPC, and the Federal Energy Administration.

### How Controls Disrupt

The present structure of price controls produced its most serious effects—thus far—in the winter of 1976-77. But the area most in jeopardy now appears to be California. In that state 55% of all non-

vehicular energy requirements are met by clean-burning natural gas. Distribution systems for fuels other than natural gas are completely inadequate. Even if alternate fuels such as coal or oil *could* be distributed instead, pollution in the Los Angeles basin would become unbearable.<sup>2</sup>

Already a shortage of natural gas exists in California, and is getting worse. FPC figures showed a 22% supply shortage for the winter of 1976-77; the figures were 18% in 1975 and 14% in 1974. Thus, unless expensive liquified natural gas (LNG) is imported (at approximately \$3.50 per thousand cubic feet compared with \$0.70 for the average pipeline gas price) the alternatives are: either demand is left unsatisfied and the economy suffers (loss of jobs and income) or the demand is filled by alternate fuels like oil and the environment suffers.

The price of the shortage has already been substantial in California. A study by SRI International shows that since 1971 over 76,000 California jobs have been lost because of reduced gas supplies. The same study estimates that by 1981 the loss will have risen to 800,000 jobs, just due to gas shortages.

The outlook for California industry is more of the same. Joseph R. Reusch, president of Pacific Lighting Corporation (parent of Southern California Gas Company), warns

that gas curtailments will accelerate. At Kaiser Steel's huge Fontana mill Pacific Lighting will curtail gas boiler fuel on about 200 days this year. The alternative is low-sulfur fuel oil, which is about 1.67 times as expensive, per BTU, as natural gas. Lockheed Aircraft Corporation's six plants suffered gas curtailments only a few days in 1974 and 1975, but reached fairly heavy cutbacks in 1976, and 60% cutbacks in 1977—with no gas at all in 1978. According to Harry Winston, head of Lockheed's energy program, the company is turning to diesel fuel, two and a half times as expensive as natural gas. Diesel fuel will become short, too, because of limited West Coast refining capacity. "By 1980 we'll be running tight on overall product demand," predicts Edward J. Cahill, economist with Standard Oil of California.

### **Agriculture Affected**

So much for industry. What about agriculture? At one end, the fertilizer industry is concerned about receiving enough gas feedstocks at a price that will permit staying competitive. At the other end, canneries are being cut off and are having to convert to diesel oil, at about \$500,000 per plant, according to Tri-Valley Growers, Inc.

Executive vice president Harvey A. Proctor of Pacific Lighting predicts cuts to firm customers by the

winter of 1978-79 and warns that many of Southern California Gas Company's 12 million users will lose their jobs if a solution is not found. He points out that, attempting to remedy some of the shortage problems, Pacific Lighting negotiated to buy the *rights* to 4.2 trillion cubic feet of gas from ARCO, in return for \$327 million to finance additional development of Alaska's North Slope. The plan was first approved, then vetoed, by the California Public Utilities Commission.

Meanwhile, production continues to drop. Edward Najaiko, vice president of El Paso Company, whose pipeline delivers a lot of gas to California, says, "In the past few years we've been using twice as much gas as has been found." Despite the addition of the Prudhoe Bay deposits in 1970, U.S. natural gas reserves went from 292.9 trillion cubic feet in 1967 to 228.2 tcf by the end of 1975, a decrease of 22%. Annual production decreased from 22.6 tcf in 1973 to 19.4 tcf in 1977.<sup>3</sup> Yearly consumption is about 19 tcf.

### **Short-Term Prospects**

What, then, is the outlook? How much gas do we have left? Surely some agreement can be found in this area? Actually, not. As we noted before, it all depends on what gas price you are talking about. Let's look at some of the reported figures and estimates.

In 1977 a study was performed by some 70 people at the Energy Research and Development Administration (ERDA). The study, titled MOPPS (Market Oriented Program Planning Study), provided three estimates of natural gas reserves, based on a number of assumptions.<sup>4</sup> According to the most pessimistic estimate, the potential reserves at \$3.25 per thousand cubic feet\* are *double* those at Congress's proposed \$1.75 ceiling. And this includes only conventional sources of natural gas. The most optimistic estimates include unconventional sources (more on those, below), and estimate over 600 tcf at prices *below* \$3.25. If we consider that the closest competitive substitute for natural gas is No. 2 fuel oil at an equivalent of \$3.00, the good people at ERDA have just told us that deregulation of gas prices could break up the OPEC cartel. It is that simple. It also appears that nobody in high places was listening—or that this information is being deliberately ignored.

When the MOPPS study speaks of deregulation, it is not bringing up a new issue. Economists have been urging that gas prices be decontrolled for at least the past decade. In the February 14, 1977 issue of *Business Week* Anthony J. Parisi recommended immediate deregulation

of the price of new gas supplies.<sup>5</sup> Parisi pointed out that free market prices have not been allowed to interstate pipeline companies for over 23 years. *Intrastate* prices and supplies, meanwhile, were allowed to follow the laws of supply and demand. As a result, the average price of gas within Texas is \$1.80—about four times the average price of all *interstate* gas, and only 10% below the world oil price, on a BTU-equivalent basis.

### Across State Lines

Due to interstate price controls, reserves committed to big interstate pipelines have dropped drastically: in recent years they have secured only about 15% of all new gas sold, coming mostly from offshore fields in federal waters. (And these are dedicated *by law* to the interstate market.) Parisi points out that deregulation would permit interstate buyers to compete with intrastate buyers for new gas sources. As a consequence, a greater percentage of gas coming on stream each year would go to customers in distant states. Also, many as yet uneconomical offshore gas fields would become economically viable and more virgin sites would be drilled. And, as gas bills increased, demand would diminish, especially industrial demand. Currently, industry pays *less* than homeowners and thus uses gas in lower priority applications.

\*Gas prices subsequently quoted are at the rate per thousand cubic feet.

Charles L. Blackburn, executive vice president in charge of exploration at Shell, states, "There are lots of prospects in the Gulf that everybody knows have gas. These fields could be exploited and developed." James Murphy, president of Vaguer Petroleum in Houston, thinks that liberating just *new* gas prices would add two billion cubic feet to the current Gulf area production of nearly 10 billion cubic feet per day. This would not solve the shortage, since freeing only new gas would affect only 10% of the gas in current interstate commerce. "The other 90% will continue to sell at long-term contract prices of less than \$0.30 per thousand cubic feet equivalent to crude oil at \$1.80 a barrel," says A. V. Jones, Jr., president of the Independent Petroleum Association of America.

### How Much Gas Is Really There?

The U.S. Geological Survey (USGS) estimates gas reserves as follows: 228.2 trillion cubic feet in proved reserves, 201.6 tcf in inferred reserves (including Alaska and offshore deposits), and anywhere from 322 to 655 tcf as undiscovered but recoverable reserves. These figures are less than 50% of what USGS estimated as recently as 1974. Julian Martin of the Texas Independent Producers and Royalty Owners (wildcatters) estimates undiscovered reserves at approxi-

mately 700 tcf, and considers this a conservative estimate, since others have mentioned anywhere from 350 to 4000 tcf.<sup>6</sup>

But all these estimates apply only to conventional sources of natural gas. Besides these, there are at least four "unconventional" sources of gas—mostly methane—that could eliminate any gas shortage for hundreds of years. All four sources would be exploitable—at less cost than LNG or exotic coal-to-gas conversions—if price controls on gas were removed.

The first such source is the huge "geopressurized zone" of the Gulf coast. The USGS estimates that geothermal hot salt water under Texas and Louisiana contains 24,000 tcf of methane.<sup>7</sup> In this region large aquifers at 8,000 to 25,000 feet depth, at a temperature of 150°C. and high pressures, contain up to 45 cubic feet of gas per barrel of water.<sup>8</sup> Estimates of the total amount of methane gas in onshore aquifers vary. Bill Rise of Louisiana State University estimates 3000 tcf; the USGS, as mentioned, says 24,000 tcf; and Paul H. Jones of LSU projects 49,500 tcf (about a 2600-year supply!). And similar amounts are expected in offshore deposits. Production costs would be high, and because of subsidence, only about five percent of the water in the aquifers could be removed. Thus, using the most conservative



estimates of onshore and offshore gas supply, this would mean 300 tcf of recoverable gas—more than doubling current proved reserves. Using the USGS estimates leads to a figure of 2400 tcf of recoverable gas—a 126-year supply, at present rates of use.

### **Methane in Coal Beds**

According to the National Research Council Forum on Potential Resources of Natural Gas, methane in coal beds would be the cheapest and easiest new source to exploit. All coal deposits contain trapped methane. This gas is hazardous to coal mining, and is currently being vented to the atmosphere, because gas prices are too low to make it economical to recover. The average methane content is 247 cubic feet per metric ton of coal. Thus, *known* U.S. coal deposits contain at least some 300 tcf of methane.

Another source is gas in "tight sands." Tight sands are layers of clay, chalk, and sandstone in shale that sometimes contain gas. The USGS estimates that there are some 600 tcf trapped in the Fort Union and Mesaverde reservoirs in the Rockies, and similar amounts elsewhere. Recovery requires extensive fracturing of the shale. Nuclear fracturing has been tried, without too much success, but hydraulic fracturing looks promising. If gas prices were to rise to only \$2.00 per

thousand cubic feet, the Rocky Mountain basin could be producing almost a trillion cubic feet per year within seven years, according to Lloyd E. Elkins of Amoco.

A fourth unconventional source is gas in Devonian shale. Found in the eastern and midwestern United States, shale contains from 22 to 33.5 cubic feet of trapped gas per metric ton. The USGS estimates that approximately 494 tcf of gas could be found in this type of shale. Such gas has already been produced locally in eastern Kentucky. The wellhead cost for shale gas is approximately \$2.00, according to William Morse of Columbia Gas Transmission Corporation.

Together, these four sources could provide an additional 3794 tcf—17 times more than existing proved reserves and equal to the highest estimates of remaining undiscovered gas from conventional sources. The 3794 tcf is equivalent to a 200-year supply, at present consumption rates. This gas *will* be produced if prices are allowed to rise to between \$2.00 and \$3.00. It cannot be produced at today's controlled prices—or even at the proposed new ceiling of \$1.93.

### **What About Your Gas Bill?**

About 30% of all gas used goes to residential customers. The rest goes to industry, as we have seen, at lower rates. How is the gas price to

the consumer arrived at? The *Wall Street Journal* recently provided an illuminating case study.<sup>9</sup> In Brooklyn, New York only 20% of the bill goes for the gas itself; the other 80% goes to pay for pipeline costs. This immediately tells us that the wellhead price of gas—the only factor in the deregulation controversy—will have comparatively little effect on your gas bill. Today's average wellhead price is \$0.45. What does Brooklyn Union Gas charge its residential customers? \$3.38 for heating and cooking, or \$5.78 for cooking only. In 1973, when the wellhead price was \$0.25, the company charged \$1.72 for heating and cooking gas, and \$3.42 for cooking only. Clearly, most of the four-year increase was *not* due to the increase in the wellhead price. To what then? Pipeline costs.

Pipeline amortization plus operating costs plus profit are estimated long in advance *per cubic foot carried*. In 1973 the pipeline was full; it was half empty in 1977 and the price doubled. To anticipate your next question: pipelines are *not* allowed to pay higher wellhead prices to keep the lines full and thus keep costs down—that's what the price controls prevent. A 1975 study by Arthur Young & Company showed that without new supplies from deregulation, by 1980 Brooklyn Union Gas would have to sell its gas at \$4.45. If the pipeline were kept full

with a wellhead price even as high as \$2.50—a 5.5-fold increase—the price to consumers would be \$3.98. At a wellhead price of \$1.50, gas would retail at \$3.31 with a full line. This is actually *cheaper* than today's \$3.38 with a half-empty line and a wellhead price of \$0.45! For other locations the actual figures would vary, but the point remains the same: the price to the consumer depends primarily on pipeline costs, and is *less* when the pipeline can be kept full by abundant supplies of (more expensive) gas.

### Conclusions

What can we conclude from all this? We realize that for many people this information must be somewhat confusing, because of its technical nature and the many figures involved. But the subject is *inherently* complex because of its nature, and thus must be presented in a fairly technical manner in order to be understood. Many of our elected officials take advantage of this complexity, counting on their listeners being too naive to understand what's really going on. Thus, the cries of "profiteering" and "rip-offs" tend to be taken at face value, rather than being dismissed as obfuscation of the real issues. It is worth keeping in mind, also, that even if some of the figures in this article were not completely accurate, even if some were off by 100%,

### **Competition Serves Consumers**

PRIVATE enterprisers are constantly trying to find new materials and new uses for known resources, always looking ahead to see which ones will be available and how efficiently they can be utilized. Pick up any trade journal and note the articles on how to cut costs, utilize waste materials, be more efficient. Because the government told them to? No. The hope of profits acts as a powerful compulsion to be efficient, to improve, to conserve. The following examples show how private enterprisers eliminate waste and utilize natural resources to meet the needs of the consuming public.

Until natural gas was known to be useful as a fuel, petroleum producers burned it to get rid of it. Until ways were found of storing and transporting gas with safety, it had only local use. Competition forced the search for further uses and wider markets, and profits rewarded those who best served consumers. As ways were found to handle gas beyond local markets, consumers elsewhere gained a wider choice of fuel, and other fuels were thereby conserved.

**RUTH SHALLCROSS MAYNARD**

"Who Conserves Our Resources?"

the basic conclusions would still be the same. Some of these conclusions are as follows.

First, we have, if not a crisis, certainly a gas shortage. FPC data tell us that reserves were decreasing even while drilling almost doubled. In fact, we'll have a five-year gas shortage even if we get deregulation. An MIT computer study found that there will be a five-year lead time to eliminate the shortage, once prices are set free.<sup>10</sup> Kevin Lloyd of

MIT's Energy Lab reports that if the price were to rise immediately to \$2.00 we would see only a five percent production increase the first year. By 1980 the shortage would be reduced to 5-10% of demand, from the current 25-30%. At the \$2.00 price level, all demand, old and new, would be filled by 1982.

The severe effects of the shortage in winter 1976-77 were very expensive: up to 1.5 million jobs lost, and a 32% increase in oil imports over

1976. These effects could have been prevented by allowing gas prices to reach free-market levels. On an energy content (BTU) basis, unregulated intrastate prices are only 10% below oil prices on the world market. And the MOPPS study showed that reserves of conventional sources of natural gas would double if the price were to reach \$3.25. The analysis in that study took place in 1974. But nothing has been done.

Those who projected the effects of deregulation found that it would solve the problem in a matter of a few years. If interstate gas were to rise above \$2.00, it would be able to compete with intrastate gas. This would help to keep pipelines full, leading to lower retail prices to consumers, other things being equal. Even a very dramatic increase in the wellhead price of natural gas would not affect domestic gas bills proportionally: this is because only about 20% of the bill is due to the cost of the gas, with the bulk of it accounted for by pipeline costs.

From these findings we cannot escape the conclusion that we could literally break up the OPEC oil cartel if we developed our unconventional gas resources and expanded conventional ones. If intrastate gas at \$2.00 is only 10% below interna-

tional oil prices on a BTU basis, then OPEC has a very limited future. At \$2.50 or \$3.00 the United States would be awash in natural gas, and the price of oil, as a less desirable fuel, would be forced down. We believe it is in the interest of all of us to reduce our dependence on foreign sources of energy, when this can be done at such a relatively minor cost. ☉

### —FOOTNOTES—

<sup>1</sup>"1974 Report Warned of Possible Gas Crisis," Robert Gillette, *Los Angeles Times*, Feb. 7, 1977.

<sup>2</sup>"The Natural Gas Shortage," *Business Week*, Sept. 27, 1976.

<sup>3</sup>"Misconceptions About the Gas Shortage," Alan Reynolds, *First Chicago World Report*, April 1977, plus telephone update.

<sup>4</sup>"Jimmy Carter on the Run," *Wall Street Journal*, June 14, 1977.

<sup>5</sup>"Needed More than Ever: Realistic Gas Pricing," Anthony J. Parisi, *Business Week*, Feb. 14, 1977.

<sup>6</sup>"Drillers Say Natural Gas Abounds—Deep Down," Nicholas C. Chriss, *Los Angeles Times*, Feb. 3, 1977.

<sup>7</sup>"Fizz from a Dead Well," Bill Crider, Associated Press, June 20, 1977.

<sup>8</sup>"Natural Gas: U.S. Has It, If the Price Is Right," Thomas H. Maugh, II, *Science*, Feb. 13, 1976.

<sup>9</sup>"Cheap Gas for Brooklyn," *Wall Street Journal*, June 21, 1977.

<sup>10</sup>"Five Year Gas Shortage Seen Even With Price Increase," *Los Angeles Times*, Feb. 3, 1977.

Hans F. Sennholz

# HOW SAFE IS YOUR BANK?



THERE was a time when Americans wondered about the safety of their bank. In depressions the banks used to close their doors by the hundreds. From August 1931 through February 1932, 2,000 banks with liabilities of over \$1.5 billion suspended operations. Many others barely escaped bankruptcy by hurriedly-negotiated mergers. All were forced to curtail their operations sharply. When the depositors were thoroughly scared, they rushed to withdraw their deposits, which forced even more banks to close their doors. To find a reliable, solid bank used to be a difficult task.

Today, most depositors don't seem

concerned over the solvency of their bank. Bankers and government regulators have succeeded in convincing the public that most banks are sound. There is careful government supervision of all banking operations, and federal deposit insurance is said to cover nearly all deposits.

These arguments alone should trigger an instant alarm. In all its regulating, government usually makes matters worse. When politicians and bureaucrats invade an industry and regulate it along political and social lines, service is likely to deteriorate and solvency may be endangered. Why should banking be different from medical care, education, or welfare?

When the New Deal government undertook to reorganize the American banking industry in 1933, the

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system deteriorated. What used to be an occasional irritant for some became a fatal disease for all. Rushing to the rescue of the hard-pressed banks, the government seized their gold reserves and replaced them with paper money that has been depreciating ever since.

### **How Banks Fail**

Prior to 1933 a few banks had failed to make payment on demand when an economic depression had caught them by surprise, inflicting painful losses on depositors. Since the New Deal rescue action, all depositors have lost at least 80 percent of their savings through inflation, and probably will lose the balance in the not too distant future. The banks are still functioning, seeking deposits and extending credit. But they are prevented by law from protecting their depositors from the ravages of inflation. They must make payments in political paper money only, that is depreciating at accelerating rates, and must invest their assets in depreciating monetary claims. The depositors are victimized every step of the way.

The new monetary order did make it much easier for the banks to stay liquid and solvent. It was more manageable to maintain a reserve of legal tender Federal Reserve money, or to keep on hand a reserve of U.S. Treasury obligations eligible for Federal Reserve discounting, than

to maintain a gold reserve for all payment obligations. What used to be a difficult banking function, to safeguard the reserves in gold, became a simple task of compliance with government regulations to make paper payments. The depositors thus were led to believe that their money was safe in banks assisted by the Federal Reserve System and supported by the Federal Deposit Insurance Corporation.

And yet the American banking system today is as vulnerable to crisis as it was in the early 1930s. To hundreds of commercial banks the simple obligation to make prompt payments in paper money, which is available in such abundance, has become as onerous and embarrassing as the gold payment obligation of the past. According to Federal Reserve reports, only 66 percent of the banks it supervises are in satisfactory condition. Roughly one-third have some payment problems. A few have already failed and many more were saved from default by reorganization and refinancing.

It should not surprise us that the cancerous monetary order has finally infected banking. The rapid increase in Federal Reserve money in recent years convinced many bankers that there would always be an abundance of easy money and credit, of which they were determined to get their share. When their deposits did not keep pace with their

desire for expansion, they borrowed the money themselves. They sold certificates of deposit, commercial paper, and borrowed in the Eurodollar market. The larger city banks especially learned to rely on "purchased money," which may account for more than 50 percent of their deposit liabilities.

### **Unsound Policies of Many Big City Banks**

The precarious banking situation of today differs from that of the early 30s in one important respect: then it was the small rural banks that faced payment difficulties when their farm loans defaulted, because American agriculture suffered from the deepest depression. Now it is the big city institutions with their "go-go" bankers that shed all caution in order to partake of the easy-money and help stimulate the national economy. Seeking ever new channels for investment, they often ignored the rudimentary rules of banking soundness.

Many big city banks are over-extended, badly exposed, thinly capitalized, and short on liquidity. With U.S. government blessing and prodding, they loaned more than \$20 billion to underdeveloped countries in Africa and Asia. Many of these debtor countries have neither the economic capacity nor the political stability ever to repay their loans. Some would not be able to pay the

interest if the banks would not lend them the money.

Guided and prompted by the monetary authorities, the banks made many other mistakes from which they may eventually recover. They lent over \$11 billion to real estate investment trusts which own vacant hotels and motels, commercial office buildings, and condominiums still looking for tenants. They lent \$6 billion to oil tanker owners whose ships sit idle in the shipyards. However, the dollar inflation and depreciation can be expected to rescue the debtors and their bankers as the loans depreciate and the assets appreciate in price. Once again the depositors will be the ultimate victims.

The New York City banks lent \$6.5 billion to the governments of New York State and City. Other urban banks throughout the country extended multibillion-dollar credits to their over-extended spendthrift local governments. New York State and City would have long since defaulted, and their creditors as well, if the federal government had not come to their rescue with billion-dollar loans and guarantees. It makes no sense to blame the bankers for having made such dubious loans. How could they have resisted the political pressure and public demand for "socially desirable" funds and projects? Even in the face of imminent default the political


oratory for more bank loans is deafening.

It is impossible to foresee the outcome of this banking dilemma. The banking authorities are doing everything in their power to hide the situation from the American public. The Federal Reserve reassures us again and again that it will be the lender of last resort to "sound" member banks, by which it means all those banks who carefully follow its regulations. It stands ready to supply liquidity, that is, loans, to meet bank liabilities in exchange for temporarily illiquid, but hopefully "sound," assets. But how sound are New York City bonds or the billion-dollar obligations of Zaire?

### Financial Statements

Financial statements by banks are very difficult to interpret, as they violate the most important principles of honest accounting. To hide investment losses, for instance, a bank balance sheet may show the costs of an investment rather than present market value. But financial statements may be useful in finding the problem banks. If bank assets are "classified," i.e., if they are not disclosed, the asset values listed can be expected to be grossly overstated, reflecting neither current values nor liquidation values. According to customary evaluation methods, a bank

with classified assets of over 65 percent of capital is worrisome. As they exceed this conventional limit the danger of banking failure grows accordingly. When seen in this light, some of the big city banks may close their doors at any time.

And yet, we are confident that no lasting harm will come to these banks. The effects and repercussions of a banking collapse would be catastrophic to the U.S. and the world economy. What must not be will not be—as long as the federal government can avoid it. It can postpone the unspeakable temporarily. Admittedly, it has no asset reserves of its own, no wealth, no income that could be used to fill the hole. In fact, it admittedly owes the world at least \$800 billion and is suffering huge current deficits. But it has the sovereign power of creating more dollars. It can inflate and depreciate our currency at ever faster rates. Therefore, if Zaire should default or New York go bankrupt, the federal government can be expected to come to the rescue of the beleaguered banks. Of course, such a rescue by the very policy responsible for the sad condition would further enhance federal power and subject the banks to more controls. And the dollar flood that is released for the rescue would inundate us all. 





# World in the Grip of an Idea

Clarence B. Carson

## 22. The United States: A Bemused People

THERE is a public service advertisement that appears on television from time to time. One scenario has everyone in it moving around in wheel chairs except one person who walks about normally. Everything is arranged for the convenience of people in wheel chairs, which poses dangers and inconveniences for anyone afoot. In the other scenario, everyone is blind except one person. He opens a book but sees no words in it. He asks if there are any books

with words in them in the library. They assure him that the books they are using have words in them. Since the person who can see cannot read in Braille, the others assume he cannot read.

The point of the advertisement is, in part at least, to arouse sympathy and understanding for the handicapped. So far as that is its purpose, there is nothing exceptional about it. To sympathize with and have concern for the less fortunate is in keeping with the highest concept of charity. Moreover, to put oneself in the place of others, by way of the imagination, is laudable.

However, the method used to do

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

this in the advertisement is questionable. The method entails a *reversal of the norms*. The handicapped, because of their implicit normality, have changed from being subjects worthy of sympathy and concern into threats to those who have been normal. What is convenient to their condition becomes the way things are to be arranged. This emerges as a threat because the people who have been handicapped show no sympathy or understanding for erstwhile normal people.

### Reversing Normality

The transformation that has been going on in the United States proceeds by reversing normality. In effect, new norms are created, and the old established norms are abandoned. This change is impelled by the idea that has the world in its grip. Just as in the above scenario, what was normal becomes exceptional and unusual, or, at least, not distinctively normal. What was formerly rare or unusual takes its place among the expected and normal.

The process by which this transformation occurs should be familiar, for the pattern has been established by constant repetition and by expansive application into more and more areas. The change is advanced by relativistic arguments. In its bluntest formulation the argument goes something like this. What is

normal? Who can say what is normal? At the ordinary level of discourse, these are unanswerable questions. They are difficult to answer, in the first place, because we are unprepared to defend our concepts of normality. We may be convinced that we know what is normal, but proof is quite another matter.

There is good reason for this. Inquisitive children usually learn at a fairly early age that questioning the norms is a fruitless and unrewarding undertaking. Far from being commended for being brilliant, they are apt to be maligned for their stupidity. After all, what kinds of questions can be raised about norms? Why do we walk on our feet instead of our hands? Why do we drive on the right instead of the left? Why do women have babies and men have hair on their chests? In most cases, no satisfactory answers can be given. Hence, children are discouraged from raising such questions. The best answer we can make in many cases is simply, "That is just the way things are." And what we are apt to think after saying it a few times is: "If you weren't so stupid, you would have figured it out for yourself."

There is yet another reason for our usual inability to make an apology for our norms. One of the primary concerns of society is to maintain the norms. All social function

depends upon norms and their general acceptance. Take them away, or abandon them, and society disintegrates. All acts lose their meaning, and everything is unexpected and strange. To debate the validity of norms is to debate the validity of society. That is, of necessity, a debate for which there are no rules, and one which society cannot tolerate. Society's business is to discover, preserve, and maintain the norms, not to challenge them.

That is not to say that norms are not well grounded. On the contrary, many of them are grounded in nature. Where that is not the case—where they arose as custom, for example—they have been instilled by nurture and have become second nature by usage and veneration. Our very social existence is grounded in norms. Their reason for being, if there is no other reason, is the smooth functioning of society. It is a sound instinct that resists discarding a norm because we do not perceive its reason for being, for experience teaches that if we probe deep enough we may discover reasons we did not even suspect.

None of this is acceptable to socialists, of course. The received norms stand athwart the path which both revolutionary and evolutionary socialism must tread. Socialism requires that all efforts be concerted toward the achievement of human felicity on this earth. The great

strength of the idea that has the world in its grip lies in that very conception. Its weakness lies in the conception, too, as well as elsewhere. The irony of it is that the achievement of human felicity, so far as is practicable, *is* a social norm. More, the purpose of society is to provide the framework for achieving such felicity as is possible for man.

But society does not define human felicity. That is left, in the main, to individual decision. In the same manner, individuals are left to a great variety of devices and means for achieving their own ends. This is anathema to socialists. They would transform society from a framework into the determinant of the content of felicity and the means by which it would be achieved. The individual would be confined and society politicized. Social norms would become whatever appeared to be useful in controlling the individual and politicizing society. Norms have to become what is decreed as normal by the political power. Gradualists, however, have no such absolute power as yet. In the United States, the communications industry has made forceful strides in determining what is normal.

### **Breaking Down Distinctions**

The first stages of socialism are concerned mainly with breaking down the distinctions on which the norms are based. The breakdown of

the norms proceeds along two lines. One is intellectual, and the mode is relativism. The tendency of relativism is to discredit all norms. Norms are, according to this line, simply matters of opinion. The authority for them becomes either majority opinion or simply whatever is done by large numbers of people. Normality in America has become indistinguishable from the average, or better still, the lowest common denominator of behavior. The logic of such an approach is that if norms are relative there are no norms. There is only what happens to prevail at the moment.

The other line is to pose continual challenges to the established norms. Journalism is particularly well suited to this undertaking. There is an old saw to the effect that if a dog bites a man that is not news, but if a man bites a dog that is news. That is a way of saying that journalists focus on the odd, strange, curious, different, and unusual. But when journalism becomes pervasive, as it bids to do in America today, it becomes a continual assault on the norms. This is especially the case when the odd, strange, and curious are not presented as odd, strange, and curious but as commonplace and normal. It happens over and over again that radicals are interviewed in such a way as to make them appear normal.

The technique by which this is

done is easy enough to discern. Let us suppose that an advocate of communal living arrangements is being interviewed. The act is cleaned up for television, for instance. There is no obscenity or profanity. The interviewee is likely to be well enough dressed, be clean, well brushed, and reasonably neat. The impression prevails that he is different in one respect only—that is, that he believes the “nuclear family” is outmoded and new and extended families are emerging. New norms are taking shape before our eyes, as it were, painlessly and with no apparent wrench to a whole body of belief and practice. The odd, strange, and curious—the shifting and unsettled relationships in some sort of communal arrangement—are presented as an emerging norm.

### **Individuality Assaulted**

Why is this assault on the norms made necessary by the idea that has the world in its grasp? The reason is not difficult to grasp. There is one norm that must be wiped out if the idea is to prevail. It is the norm that individuals can, do, and will pursue their self-interest as they perceive it, ordinarily and generally. The pursuit of self-interest is the apple of discord in the socialist visionary Garden of Eden. It is the unpardonable sin, the source of man's fall, and the continuing obstacle to harmony and beatitude on this planet. So long

as it remains normal, the vision of socialism is only a will-of-the-wisp.

On the face of it, the socialist problem would be easy enough to solve. All that would have to be done would be to get people to abandon the individual pursuit of self-interest and devote themselves to the common good. Isolate self-interest, pillory it, make it unacceptable, and people will abandon it. There have been attempts to do this, of course. But the solution is not that easy. Self-interest is not a norm existing in splendid isolation from all other norms. Instead, it is intertwined in the warp and woof of the whole fabric of the received normality. Socialists have generally understood this well enough and have grasped at least some of the dimensions of the problem confronting them.

The whole system of private property buttresses and supports—even rewards—the pursuit of self-interest by individuals. Free enterprise invites individuals to prosper by laboring to advance themselves. The norm that a man should receive the fruits of his labor places a premium on the pursuit of self-interest. The family is an enclave of self-interest or at least limited interest seeking. Members of the family are bidden to look after the family interest primarily. The institution of private property is so developed and conceived that it is tied up with the

limited family interest—with inheritance, with wills, with shares for members of the family, and so on.

Even religion has been generally entangled with individual self-interest. (Indeed, Marx believed that organized religion was at the apex of the whole structure of capitalism.) The individual is bidden to take care of his interest in eternal beatitude in the hereafter by getting right with his Maker. The Hope of Heaven is, after all, a Hope primarily for individual salvation.

On the socialist view, then, the received norms are honeycombed with supports for and enticements to the individual to pursue his own self-interest. The pursuit of self-interest is a norm, as they see it, because the whole fabric of normality makes it appear to be so. In order to cut away the pursuit of self-interest, the whole structure of normality must be replaced. Those under the sway of the idea differ about means and, perhaps, about how drastic the surgery must be, but they basically agree over the problems presented by the received norms.

### **A Political Movement to Effect Economic Change**

There have been two major thrusts of socialism in the United States in the twentieth century, with many more smaller and inter-related developments. The first

thrust evinced itself primarily as a political movement aimed at bringing about economic changes. This political thrust has gained momentum several times, but it was most successful in making headway in the 1930s. Roosevelt's New Deal succeeded in passing legislation which seriously altered the framework of economic normality and morality.

The use of government power to redistribute the wealth was established as a principle during the decade of the 1930s. The Social Security enactment turned out to be the centerpiece of the distributionist legislation. By means of it money was taxed from earners and distributed after retirement to those who had paid into it. It was, and is, redistributionist because benefits do not depend upon amount paid in; they are determined by Congress according to formulas which have been revised over the years.

Redistribution was also the operative principle in many other New Deal programs. The farm subsidy programs redistributed wealth. The government put its weight behind labor unions, and hence the use of coercion by unions to get higher wages and shorter hours. Subsidized houses and government supported loans were also redistributionist in character. The graduated income tax which, along with Social Security, undergirds redistribution, had

already been used, but it was much extended under the New Deal.

New distributionist programs have been enacted over the years. The most notable, and notorious, have been the welfare programs. Less well publicized, but more ubiquitous, are the numerous subsidies to everything from airports to local police to school lunch programs. The Federal hand is not only in every pocket but the Federal handout is extended in every direction.

### **Monetary and Spending Policies to Achieve Control**

That government power should be used to control and direct the economy was also established as a principle in the 1930s. Manipulation of the money supply was one of the earliest and main instruments of this control. Another major instrument is government spending and it is linked with taxation to direct economic action. Government has so long concerned itself with employment and unemployment that for most people it must appear as legitimate a government function as is the apprehending and punishing of criminals. All these ways of controlling and directing the economy have been steadily expanded and extended since that time.

The other major thrust to socialism came in the 1960s and has continued apace since. Although it,

too, is political, the primary aim is not so much economic as social. This thrust is toward social transformation. It emerges as an effort to overturn the established norms as a means of changing the existing order. Legislation is mainly a framework only for this transformation.

Every norm is grist for the mill in this transformation. Indeed, it is not clear, in general, that overturning one norm is more important than another. Since all norms support the existing order, they must all be overturned or transformed. It hardly matters whether what is involved is sex, marriage, the family, the role and position of the husband, education, military authority, the authority of the President, ownership and control over property, or whatever. Every norm overturned weakens the authority of all norms.

In this sense, priority for destruction of norms may best be given to those most deeply entrenched. It is from this angle that the assault on sexual norms may be understood. Sexual norms have been long established, and would appear to be most difficult to alter. Indeed, many of the sexual norms are rooted in nature, and some of them have been surrounded by taboos. It is also the case that some of the most fundamental inequalities are sex related. It is reasonable to suppose that if the sexual norms could be destroyed, all

other norms might fall in their wake.

The attack on sexual norms has been blatant in recent years. Male dominance and authority have been under consistent assault. The norm has been that the male is dominant in male-female relationships—that his opinion is deferred to, his decision final, and that he is the fiscally responsible partner in the household. This norm is supported by custom and tradition, and has been supported by religious authority. A portion, at least, of this norm has a natural basis. Normally, men are taller, heavier, and stronger than women. Women are the child-bearers by nature, and many of the skills and abilities which they have developed have been related to that role. The nuclear family, as monogamous marriage has been lately dubbed, is founded in the nature of parental responsibility, and the desirable conditions of child bearing. The norms are threatened by what is called female liberation.

Aggressive homosexuality threatens the whole concept of normality. If homosexuality is "normal" there are no norms in sexual relationships. The male dominance takes on only a symbolic, and entirely relative, significance. Parental responsibility has no foundation in homosexuality. The distinction between male and female is obliterated. Normal is cut loose from

its foundation in nature. The whole framework of norms entailed in marriage, the family, property inheritance, loses its meaning when homosexuality is accepted as normal.

### **The Impact on Society: A Chaos of Relationships**

The reversal of the norms has a devastating impact on society. Norms are to society what the fixed points of a compass are to navigation. It can be argued that norms are relative, that some of them are even arbitrary, which they may be. In a similar fashion, it can be argued that the directions on a compass are relative, as indeed they are in some senses. But it is absolutely essential to agree upon and accept them else charts become worthless, and no definite course can be plotted to go from one place to another. The functioning of society is equally dependent upon agreement upon and acceptance of a set of norms. Norms are the foundation of privileges, positions and functions within a society. When they are overturned, a chaos of relationships results. No one can any longer be sure what function he is to perform, or who has the right or authority to make any decision or perform any act.

Every body must have a head. Every household must have a head. Every undertaking involving two or more people must have someone who is in charge. Constructive activ-

ity depends upon each person knowing what he is to do. When the norms are overturned, constructive activity declines and debates and contests over authority ensue. Force tends to replace voluntary cooperation, and the strongest or most determined assert what is often enough entirely arbitrary authority.

That is what is happening in large in the United States. The norms may not have been overturned in many instances, but they have been so seriously questioned that their validity is in doubt, and there is no longer universal agreement upon and acceptance of them. Those who insist upon traditional male-female roles are denounced as "male chauvinist pigs." Those who are affronted by open homosexuality are accused of being intolerant. Those who exercise firmly the authority of their positions are charged with being dictatorial. Students would determine the content of their courses and formally evaluate their teachers. Prison inmates attempt to organize politically in order to run the prisons. Unions negotiate and enforce work rules.

What a man may do with and on his property is in such doubt that experts must be called upon to set matters right. The courts are burdened down with litigation as civil suits burgeon. Court cases are increasing in length and complexity, and no decision ever seems final as



appeal follows upon appeal from whatever decision has been rendered. Interminable hearings precede all sorts of undertakings. Debates and contests over who has the right and authority to do what supersede the constructive activity by which it might be accomplished.

### **Rampant Confusion**

The American people are bemused. The word has two rather distinct meanings. It means "confused, muddled, stupefied" and it means "lost in thought" or "preoccupied." Americans have every reason to be confused. They have been repeatedly confronted and affronted by scandalous behavior that has gone un reproached. They have witnessed in a span of little more than a decade the breakdown of social restraints as in the case of the public use of profanity and obscenities. They have seen the breakdown of the proprieties as they apply to female behavior. On the day before four students were shot down by the National Guard at Kent State, teen-age girls roamed the campus making lascivious invitations to the guardsmen, shouting unprintable obscenities at them, and otherwise behaving like tramps. People have witnessed the loosening of all sorts of restraints and have felt powerless to do anything about it. The symbols of political authority—the military and the police—have been defied

with impunity and subjected to verbal and physical assault. Why would not people be confused?

And, whether lost in thought or not, the American people have been preoccupied. Better, they have increasingly occupied themselves with their own affairs and closed their eyes to what is going on with society. It is understandable that they should. The disintegration of society means that the individual can no longer rely on support in bringing reproach and discredit on those who flout the norms and proclaim their disdain for social prescription. The disintegration of society means, too, that the individual had best look to his own protection and well-being. But it also means that force will be brought to bear in more and more areas of life. The breakdown of authority is not the prelude to liberation, it is rather the precondition of the restoration of some sort of authority by the exercise of force.

### **Force Fills the Vacuum**

Today, that force evinces itself as government intruding ever more deeply into our lives. It manifests itself as the loss of control over our own affairs to those who hold the reins of political power. The New Deal type intervention has continued apace in conjunction with the assault on the norms. But in those areas where society is impotent, government is just about equally

impotent. Thus, the authority of government declines even as society disintegrates.

The idea that has the world in its grip would replace the pursuit of self-interest by a pursuit of the common good. There is no evidence that this has resulted as yet. True, politicians and spokesmen in the communications industry speak a rhetoric of the common good. But the most obvious development thus far has been the disintegration of society and the decay of civilized behavior—the very instruments of the promotion of the common good. There is much verbal evidence that the American people have lost con-

fidence in government as an instrument of the general welfare and for the promotion of the common good. But in their bemused state, they do not readily grasp or believe in an effective alternative.

Of course, the United States does not exist in a vacuum. The hold of the idea upon America is an integral part of its hold on the people and governments of the world. It is appropriate now to turn to an examination of it in that perspective. ☉

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Next: 23. *The Cold War: Revolutionary versus Evolutionary Socialism.*

### **Individualism Maximizes Freedoms**

FREEDOM, being an alloy of idealisms and realisms blending conceptions with actualities, challenges definition; even in the sense our Founding Fathers cited Liberty as a Right to freedom we have seen "freedoms from" obliterating "freedoms to" and "freedoms for," seen emphasis on freedom's idealisms displacing freedom's actualities and vice versa, even the pursuit of equal freedoms for all destroying the freedoms of all.

"Freedom" then, like it or not, has become a code word that is subject to abuse, while on the other hand individualism is something to which we can all relate. Where respect for individualism is maximized is where all individuals enjoy the maximum of freedoms, including among them the maximum freedoms of thought, speech and deed.

J. KESNER KAHN

# Liberty for Older Americans

OLDER AMERICANS are in a serious identity crisis. Many of the norms for aging are not appropriate for bright and active older people. The norms are changing which adds to the problems of identity. The acceptable role for "grandparents," "senior citizens," and "older Americans" is anything but clear; but even when it is clarified, it turns out to be objectionable to any person who has a mind of his own. One cannot fit the stereotypes that have accumulated through years of misunderstanding.

Now that I am in my seventies, I have sensed in American life a sort of contempt for the old. I have tried hard to make allowances for any hypersensitivity or personal idiosyncracies. The stark fact of contempt still remains. Old people are regarded as a sort of nuisance. The prevailing attitude seems to be, "Get out of the labor force and leave room

for the young," "get off the highway and let the young people who wish to go somewhere, go," "these things cannot possibly mean anything to you so get out of the way and let us enjoy them."

I have noticed a look of irritation and contempt when I must ask some mumbling young person to repeat a sentence because I do not clearly understand what he is saying. When a young person spills his coffee, it is just a mistake; but when I spill mine, it is because I am shaky and the person at hand may be irritated. The doctors say, "At your age you should not undertake this kind of treatment," or an onlooker will say, "Just look at the old fool trying to be romantic." Once it was said of children, "they should be seen and not heard." This same attitude of contempt has now been transferred to older people. The attitude seems to be, "Shut up, Dad. Things have changed since you had anything to do with them."

This attitude does not always

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**Dr. Gresham, President Emeritus and Distinguished Professor, Bethany College, Bethany, West Virginia, here reveals, in part, his plans for those busy years ahead.**

have a hostile edge. It may be a benign compassion which increases the intensity of the sting. It is easier to face contempt than such an attitude as, "Oh, there, there now; of course you feel that way because you are old." A person who is pitied is diminished in self-respect far more than a person who is scorned. Members of one's own family may be swept up in the conventional attitudes toward aging to the extent that they feel a condescending attitude of pity toward anyone past sixty-five. What could be more infuriating to a highly competent septuagenarian than to have one say, "How remarkable. You still drive a car?" or "You are in your seventies. Do you still give lectures?"

There are times when those of us who are old need sympathy and pity and we do well to accept it with grace and gratitude; but there are other times when we deserve respect and we resent being exposed to the so-called "compassion for the old" which is about the most obnoxious attitude anyone could hold for us. When we are capable and qualified people, we should be regarded as equals where this is appropriate, superiors where we deserve it, as inferiors when the appraisal is just; but in every case, we have the right to stand on our own feet and be honorable, respected people.

The young people I know, of course, reflect none of these at-

titudes, but this is a personal matter. My students regard me as a contemporary. The contempt appears only in impersonal relationships.

A little bit of common sense will tell any reflective person that many people have a whole new surge of vitality, interest and ability in their sixties. This is particularly true for people in public life, people in business, professions and in finance. The stereotype of the spent old person at sixty is about one hundred per cent wrong. Yet older people face major discrimination when they attempt to market their talents. I have been shocked by my contemporaries in law and medicine who are still active in their professions who say to me, "Oh, at your age, I do not think you should take on anything else." Here are intelligent people who would not give up their own responsibilities for anything, advising their patients and clients to live by the distorted norms.

These norms, however, are changing. Once the old people in America were few, but now we are many. With the increase in life expectancy and the interesting configuration of population growth, old people have come to be a powerful political force. Now eleven per cent of the American people are past sixty-five. As the numbers have been increasing, so have the skills and methods of political clout. Many old people have

come to be self-conscious exponents of a minority seeking a voice in public affairs. The large associations of people in their sixties or older are as numerous and active as any associations in America.

Certainly I cannot speak for other people who have lived six or seven decades; but I can speak for myself and, by conversation, insight and study, reflect the attitudes and opinions as well as the needs and interests of many contemporaries. Some of the points that I make here may be widely disputed, as I find myself disputing some of the most vigorous attempts of some aging activists to get special interest legislation approved by the Congress. The privilege of differing viewpoints is certainly an earned prerogative of the mature. When I say we want these things, I really mean that these are the things that seem to me paramount for those of us who have reached the sixties and beyond.

### **Liberty**

Who has earned the right to personal and political freedom more than a person who has lived through six or seven decades? Some people do not like liberty and some have become so inured to tyranny that it seems comfortable. Taking all this into account, I am still convinced that I speak for my contemporaries when I say we dislike all these so-called "mandatory" programs that

affect our lives. We dislike the arbitrary nature of Social Security, but after we have paid the tax, we resent the unfair discrimination with regard to earning power. We resent the unjust discrimination written into the income tax law which denies older professionals deductions for activities needed to preserve their professional image and self-esteem. Nothing could be more distasteful than a law requiring a person to work, or not to work, until a certain age regardless of what that age might be. What is wanted is freedom to work as long as one wishes and for as long as anybody wishes to employ him.

This same resentment against the loss of individual liberty holds for such things as the consumer movement as it bears on senior citizens. No self-respecting old person prefers decisions out of Washington to those of his own taste and inclination. It should be my privilege to choose the food I wish to buy. Nothing could infuriate me more completely than to pay taxes, against my will, to employ some pretentious ass to sit at a desk in Washington and tell me what I should purchase. I find the whole idea revolting and many of my contemporaries feel the same way. I keenly resent being told what kind of car I can drive, when I can drive it and how fast, assuming of course that I stay within the bounds of propriety or what is right and

decent and safe for everybody involved.

Even more keenly, I resent being told what drugs I am free to purchase. It is the duty of government to require clear labeling and to vigorously prosecute those who, by force or fraud, misrepresent any product. It is most certainly not the function of the government to forbid me the use of saccharin, for example, when I have been told what is involved in using it. The paternal "Papa knows best" attitude of the Food and Drug Administration is beginning to infuriate all of us who have been around for awhile.

I greatly admire Maggie Kuhn and her astonishing success in organizing the Gray Panthers. I could not agree with her more with regard to "those rotten myths" about old people. We are not all alike. We are not all crotchety, with shriveling brains and diminishing gender. However, I have far less faith in government to solve our problems than has she. I see her pressing for a consumer movement with a new government bureau for consumer advocacy. This will only produce another layer of bureaucracy and consequent inflation and thereby damage all of us who are aging.

I long for individual liberty; not benign regimentation that robs me of my livelihood by enlarging the government until I am taxed into penury. I believe that many of my

contemporaries feel the same way. The only march against the government I could lead would be one which bears a placard, "Get off our backs." We would be perfectly able to solve our own problems if we had some liberty and could get some relief from inflation.

### **Inflation, the Enemy of the Old**

By all odds, the most horrendous threat to old people in America is inflation. The word is poorly understood by most people, even though it has a very simple origin. The word "inflation" simply means inflation of the money supply whether it be by printing press or credit. The result of increased supply is higher prices and wages. The reason governments all over the world turn to inflation is that they find it more palatable to increase the available money than to increase taxes when they need additional revenues to pay for expensive government projects.

At one time, the amount of money governments could make available was limited by some kind of standard such as gold or silver. When these standards were abandoned, governments felt free, when pressed, to increase the money supply at will with absolutely ruinous economic consequences in some cases—such as once happened in Germany, Brazil and even France. Inflation is worldwide and has been going on for a long time. The rise in wages, for

example, is dramatically shown by the nursery rhyme:

She shan't have but a penny a day  
Because she can't work any faster.

Since Elizabethan times, prices and wages have risen consistently even though there were periods of deflation and falling prices. In my own boyhood, the standard wage for help on the ranch was a dollar a day, room and board. There was a common chuckle about the Irishman who was so pleased with his new wage of a dollar a day that he boasted, "If I work a million days, I'll have a million dollars!" The recent settlement of the United Mine Workers strike left some of my friends who work in the mines disappointed because they did not quite get the one hundred dollars a day they were requesting. An increase in wages from a dollar a day to one hundred dollars a day in less than a century suggests the impact of inflation. Most of this impact has come in the recent past.

I have called inflation the greatest enemy of old people because it is a thief that takes away the living earned by a lifetime of hard work. Economists have made the word "inflation" so complicated that many old people do not understand it even though they are robbed by it. What they do understand are the skyrocketing prices that inflation has brought about. Not long ago, a re-

tired couple could go out for dinner for less than ten dollars for a first class meal including refreshments and gratuities. Now the same couple may face a check of twenty-five dollars minimum to more than one hundred dollars in some places. A car that fairly recently cost four thousand dollars is now selling for eight to ten thousand dollars. A loaf of bread, which once cost ten or fifteen cents is now pushing up toward seventy-five cents or a dollar. Everyone understands the meaning of skyrocketing prices when one's hard-earned retirement income is frozen at a previous level. The retirement income that once meant a life of ease and plenty now means a life of poverty and anxiety.

It is time for those of us who are older to understand what powers these rising prices. The principal villain in all inflation is the government itself, since it is the sole source of the money supply. That money supply gets out of hand because the government needs more and more money to carry on more and more projects. Politicians are enamored of voting more money to pay for projects to assist or please people, since this is the way for a politician to get votes when running for public office. Bureaucrats are eager to increase their position and power by developing larger and larger organizations to carry on bigger and more exciting programs.

## Wartime Spending

When an uncontrollable catastrophe such as a war comes along, inflation simply goes wild. Prices and wages rise and the people in government, for very good reasons from their standpoint, do not let them come down when the war is over. People in business or industry likewise look with disfavor on falling prices. Nobody likes to see his wage reduced. One round of inflation follows another and all of us are robbed.

The dollar today will purchase just over half what it would have ten years ago. All of us are going broke at an alarming rate of speed.

I feel sick at heart when I hear my friends talk about bringing inflation down to six or seven per cent. Think of an old person with his money in a savings bank at five per cent and losing one or two per cent of his capital every year and realizing no true income whatever on his money. To be sure, he has a dollar and five cents at the end of the year, but the purchasing power of that has fallen below his original investment.

Adding to the problem of rising prices is the additional problem of increasing taxes. Rising prices and increasing taxes are the jaws of the vise in which all of us are caught. These taxes rise because special interest groups ask more and more from government. Alan Meltzer, my cherished colleague who teaches

economics at Carnegie Mellon University, has pointed out that governments grow because benefits are concentrated and costs are diffused. This is a brilliant way of saying that when some special interest group, such as those of us in education, ask for a government subsidy, the subsidy means a lot to us but does not cost anybody very much when it is spread over the entire nation. The people who have no interest in education are not inspired to mobilize against the program.

When those of us who are in education push hard enough, everybody else goes along and we have an additional government program. Everybody gets into the same kind of an act. Depressed industry demands help; labor unions demand help; minorities demand help; environmentalists demand help; safety crusaders demand support, the military requires more and more, and those of us who are older get into the act with a series of new requests. Layer after layer of government bureaucracy is added and the costs of government build to the point where more and more taxes must be levied. Even this will not suffice and the money supply is increased to cover the expense of new projects not covered by tax revenues. The vise thus squeezes the old person until he is forced onto welfare. This, in turn, increases the burgeoning costs of government.



### **Mobilize for Less Government**

What can we do about this vicious situation? The answer is that we can mobilize for less government instead of more, for less taxes instead of more benefits. There is a rising revolt against the taxes that are robbing old people of their homes. Everywhere a person turns, he is taxed: he pays sales tax, he pays a tax on gasoline and any number of specific items, he is taxed on most of the services, taxed on the theater, at the restaurant, at the hotel. He pays tax on his property, his travel, his federal income tax which may be almost confiscatory to many old people. In most places, he pays state income tax and sometimes local tax in addition. It is time for us to let the world know that there can be no "goodies" from the government without taxes that come out of the hides of the people.

Many of us are enchanted today with such expensive government programs as come to us from those crusaders who want to protect the environment, the consumers, the minorities, the schools, the cities, the railroads and all of the many services that are proclaimed as highly useful and required of any socially responsible nation. Many of these are good and necessary, but some of them we must learn to do ourselves rather than create expensive government bureaucracies that will drive old people into ruin and

poverty in the next few years unless some remedy is found. Old people, more than anyone else, should know that somebody has to pay into the government before the government can pay anything out to anybody.

The great challenge for those of us who are past middle age is that we bring some kind of compelling influence to bear against our enemy which is inflation. Since government is the principal factor involved, we must let our politicians know that we need less government instead of more, less intervention, and less meddling in our lives. We can no longer afford the luxury of being taxed to death on the one hand and inflated to death on the other. We do not look with favor on becoming destitute wards of the state when we know that the state, itself, is on the way to bankruptcy. We seem to have no satisfactory alternative to an all-out fight against inflation. The best people in the government realize the predicament and may even help our cause.

If I could speak to the appropriate people in the government in behalf of my contemporaries, I would say, treat us with respect, give us an opportunity to work and to learn, protect us from crime and, beyond that, as much as possible reduce public expenditures and pursue monetary policies that will reduce inflation. The things we lose by the

robberies of criminals are nothing in comparison to the amount we lose when we are robbed by our own government. Inflation is an insidious form of robbery. Anyone who has seen his fixed income dwindle at such a rate as to threaten his livelihood has most certainly been robbed.

I am not content to join with my contemporaries in a most pleasant game, mentioned by Dr. Eric Berne, called "Ain't it Awful?" We love to gather round the watering places and discuss public affairs. One mentions his taxes and we all say, "Ain't it awful?"; another mentions inflation and we all say, "Ain't it awful?"; another mentions crime and we all say, "Ain't it awful?". And God knows we have fun but we get nowhere. We would do well to give up the game and go to work.

### **Make Your Own Climate**

I have said that the social and political climate in America is not fair to the aging and this is true. This does not imply that the aging fare any better in Western Europe. For the most part, they are much worse off. There are some cultures where old people are venerated but this, too, is a distortion of justice. I call to my contemporaries to rise above the difficulties that confront old people today and to make something of the rest of their lives just as I intend to make something of mine.

The most inspiring story can be told of aging people who earn enough and invest wisely enough to withstand inflation; people who are strong enough to overcome all the stereotypes; people who are public spirited enough to exercise some influence on public opinion; people who have put the lie to those who say "old people can't do anything." All around me are people who have experienced the surge of the sixties and are having the best time of their lives.

It is much easier to sit around and complain than it is to perform. Anybody who lives in America has sufficient liberty to make something of his own life. Retired people have the best opportunity of all. They can learn something and thereby disprove a stereotype; but, even more, enjoy the thrill of discovery. They can create poetry, music, sculpture, history, ax handles, jigsaw puzzles, gardens, cuisine, clothing, gadgets and a whole multitude of things that bring profit as well as joy. People differ in talent. Some are best fitted to lead while others prefer to be good followers. Both are important. Older people have an opportunity to exercise true leadership in government, community, religion and secular affairs. There is no time like now for an aging person to make his life count for something. Old age is not merely golden years, but golden opportunity. ⊕

# A Decision

Anne Wortham

## Against

# Meritorious Achievement

ANY fair-minded person ought to applaud the recent Supreme Court decision to uphold the California Supreme Court's ruling that Allan P. Bakke should be admitted to the Medical School at the University of California at Davis on the basis that ethnic and racial quotas are unconstitutional according to the 14th Amendment. But one would have to be quite concerned that, in reversing that part of the California Court's ruling to prohibit the university from establishing future affirmative action programs that take race into account, the Supreme Court *did not* rule affirmative action unconstitutional. It was apparently in that spirit that during the following week the Court refused to review

the American Telephone and Telegraph (AT&T) affirmative action plan of goals and timetables for hiring and promoting women and minorities. Under the plan, if hiring targets are not met the company may pass over job candidates with greater seniority or better qualifications in favor of those in the underrepresented groups.

By declining to hear the case the Court confirmed the legitimacy of the AT&T plan and thereby underscored a separate majority opinion, as written by Justice Brennan, that "Government may take race into account when it acts not to demean or insult any racial group, but to remedy disadvantages cast on minorities by past racial prejudice, at least when appropriate findings have been made by judicial, legislative or administrative bodies with competence to act in this area. . . ."

It seems that the Justices hold the widespread opinion that one is de-

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meaned or insulted only when he is discriminated *against* because of race; but there are those of us who are insulted, if not demeaned, when we are *discriminated in favor of* because of race or other equally irrelevant classifications. As a member of both the racial and gender groups so favored, I reject the opinion that preferential treatment of racial minorities should be allowed if it serves a social good. There is nothing humanitarian in a policy that uses racial classifications to "further a compelling government purpose," as the Justices put it. Any government purpose which must be served in such a manner may be suspect as having sinister motives. It may increase the numbers of those employed from underrepresented groups in industry and education, but at what price?

"What affirmative action has done is to destroy the legitimacy of what had already been achieved, by making all black achievements look like questionable accomplishments, or even outright gifts," writes black economist Thomas Sowell in the April 1976 issue of *The Public Interest*. "Here and there, this program has undoubtedly caused some individuals to be hired who would otherwise not have been hired—but even that is a doubtful gain in the larger context of attaining self-respect and the respect of others."

For blacks like me, the supreme irony of having to contend with affirmative action measures is that we grew up in a tradition which prepared us for precisely the opposite—that tradition which measured achievement in terms of merit as evidenced by one's skill, knowledge, experience, interest and attitude. It was, we were told, "the American way"—the practical expression of our culture's devotion to human individuality. Now, we are told that virtue lies not in such aspirations as color-blindness and meritorious achievement, but in the social good of implementing race-conscious programs to remedy the effects of racism.

As I contemplate the Bakke decision, my mind is crowded with reminders of all that went into my adherence to "the American way." I hear my father's repeated admonitions to his five children that we grow up to be independent, self-supporting citizens. I see him working long hours and sacrificing to provide for our education, determined that he would do so despite Jim Crow and without outside assistance. I hear this self-educated man, who at one period made a salary of only \$50 a week, telling us that our education was his investment in the future. "I don't want my girls to work as domestics or my boys to be ditch diggers," he would say. And always there was the reminder we

hear from him to this day: "Remember, your record follows you."

The society he was preparing me for was one in which merit was the basis of achievement. It was also one in which racial discrimination and prejudice were prevalent; but in addressing this issue, black fathers like mine taught their children a rule of thumb taken from the words of Booker T. Washington:

Any individual who learns to do something better than anybody else—learns to do a common thing in an uncommon manner—has solved his problem, regardless of the color of his skin. . . .

In the long run, the world is going to have the best, and any difference in race, religion, or previous history will not long keep the world from what it wants. . . .

Such was the simple but noble faith in the just rewards of quality with which these fathers and their fathers before them sent their children to colleges and universities across the country. We went forth lured by the American dream and willing to pay the price of being twice as good as our white counterparts in order to compete with them. But we wanted nothing to do with tokenism—that despised practice which A. Philip Randolph once called "that veneer of acceptance masquerading as democracy." How could one have any pride in being the "windowdressing" of some white man's conscience? We wanted no favors, no double standards, only

justice and the freedom to create our opportunities in our own way.

This tradition, though not always prevalent in certain sectors of the black community in the country, was nevertheless as potent a force among blacks as it was to any New England Yankee. Writes Sowell: "When people ask why blacks cannot pull themselves up the way other oppressed minorities did in the past, many white liberals and black 'spokesmen' fall right into the trap and rush in to offer sociological 'explanations.' But there is nothing to explain. The fact is that blacks have pulled themselves up—from further down, against strong opposition—and show every indication of continuing to advance."

It is true, as Sowell notes, that the advance of blacks "accelerated at an unprecedented pace in the 1960s, once the worse forms of discrimination had been outlawed and stigmatized." But as the 60s evolved into the 70s it was in the interest of liberals and black spokesmen to ignore that part of the advancement of blacks which is the product of generations of struggle—*without* anti-discrimination laws. It was with this one-sided view of black history that Lyndon B. Johnson told the 1965 graduating class at Howard University:

You do not take a person who for years has been hobbled by chains and liberate him, and then say, "you are free to com-

pete with all the others," and still justly believe you have been completely fair. . . . Thus it is not enough to open the gates of opportunity. All our citizens must have the ability to walk through those gates.

Johnson challenged those who might offer the counterclaim that if other Americans could overcome their disadvantages without special equality-of-result legislation, so could Negroes. He cited a long list of statistics indicating the gap between the opportunities of Negroes and whites and said:

The Negro, like these others [white minorities], will have to rely mostly upon his own efforts. But he just cannot do it alone. For they did not have a cultural tradition which has been twisted and battered by endless years of hatred and hopelessness, nor were they excluded—these others—because of race or color—a feeling whose dark intensity is matched by no other prejudice in our society.

This distorted view of black history supported by biased research, statistical "explanations," and a great deal of ignorance has now been made "official" by the 1978 Supreme Court. With the memory of past discrimination so fresh in my mind, I am profoundly resentful that I, along with every other American, must bear the burden of this new stereotype of my race—that I cannot overcome the circumstances of my forefathers on my own and in my own way; that the only way I can

compete with a white person is by weighing him down with penalties for the sins of his race and the government against my race. What an insult to me—and, oh what injustice to the innocent white person! Neither of us is responsible for the cultural heritage that stretches across the centuries behind us; yet both must be burdened by it. I am branded as incapable of walking through the gates of opportunity on my own, and he is branded as the source of my incapacity.

But I protest! It was not legislative decree but my parents who brought me to the starting line of a life of productivity, achievement, liberty and happiness. Oh, the richness of that which was handed to me and to other black children of an earlier time—that time of discrimination and prejudice and segregation. I recall my mother, a child of the Depression, teaching me how to read and write; I recall those hours I spent at an old Underwood typewriter learning "a trade," as my father put it; I recall those domestic jobs I took at \$3.00 a day to purchase classical recordings or a new dress; I recall my father making my brothers take newspaper routes so they could "learn how a dollar is made." I recall the teachers who encouraged me and those I admired. And I recall those special occasions, such as Negro History Week, when I


sang with the school choir the "Negro National Anthem," written by the Negro poet James Weldon Johnson in commemoration of Lincoln's birthday:

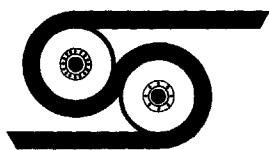
Lift every voice and sing  
Till earth and heaven ring,  
Ring with the harmonies of Liberty;  
Let our rejoicing rise  
High as the listening skies,  
Let it resound loud as the rolling sea.  
Sing a song full of the faith that the  
dark past has taught us,  
Sing a song full of the hope that the  
present has brought us,  
Facing the rising sun of our new day  
begun  
Let us march on till victory is won.

I recall being voted by my classmates as "The Most Likely To Succeed." And I recall the honor of being placed on the Danforth Foundation's I-Dare-You Honor Roll and receiving an inspiring little book written by William H. Danforth, founder of Ralston Purina Company, who cared enough about young people to say to them: "I dare you!" I shook hands with the challenge in Danforth's list of dares and took off in search of excellence, wisdom and greatness. In those days, we really believed in such things. *Anybody* could believe them, regardless of his race, color, gender, class, or national origin.

Now I find that I was fueled by the spirit and meaning of those aspirations only to have the Supreme

Court stamp my racial identity as the symbol by which my fellowmen are to judge my achievements as gifts from the State. Fortunately, there have been enough intervening years between my high school years of the fifties and today for me to have acquired that record of performance and authentic achievement my father was so insistent that I establish. But I shudder to think of the credibility robbed from those younger than I who do not have the benefit of an educational or employment history prior to the establishment of affirmative action in 1965. How are they to contend with the new prejudice against blacks who, because of their race, are suspected of being recipients of "conferred benefits"?

There can be no greater insult than to free a man, then tell him that according to the statistical profile of his racial group and interpretations of his cultural heritage, he will not be allowed to exercise that freedom in his own way, but must be spared the risks of competition, treated "preferentially," and doomed never to know whether he could have advanced alone. Whites could not be more mistaken than to think that such a policy will improve race relations. And blacks could not be more self-deceived than to look upon such a policy as having anything remotely to do with their liberty and self-respect. 



# The Ideology of Underdevelopment

WHAT should we do? Where begin? Where invest our limited time and resources in the most effective way?

Those are the questions a small group of us in Guatemala were asking ourselves when we decided to face up to the problem of underdevelopment. How could we get the best possible leverage for our efforts to raise the level of living in our country?

Perhaps this example will help illustrate the problem we faced. A group of doctors were concerned about the lack of medical facilities in our rural areas. And they wanted to start a medical school. But they seemed oblivious to the fact that the people of the rural areas lacked the economic resources to support a doctor's practice. They failed to see that medical service, at bottom, is an economic problem. This is why one may find Ph.D.'s driving buses in

underdeveloped countries. And this is precisely what we wanted to avoid—the well-intentioned but wasteful investment of our human and material resources.

Our studies led to the conclusion that underdevelopment is primarily an ideological problem, that unsound ideas inhibit the increase of wealth and well-being. This is what brought us to the founding of Universidad Francisco Marroquín in Guatemala in 1972. If the development of individuals and of a country depends upon a better understanding of economics, of individual rights, of the political, ethical and social theories that make up the philosophy of freedom, then the most efficient use of our scarce resources would be to teach these values at the highest possible intellectual level. Thus, we chose the university as a means to change the



ideological view of the world which seemed to be the root cause of poverty in our country.

We do not expect this to bring an instant victory for common sense. Our little university faces stiff competition from well-known professors of prestigious universities and from well-financed international organizations prescribing solutions to poverty that are based on a false ideology, though the proponents claim to be objective, neutral, and strictly scientific.

### **Unsoundly Motivated**

Let us assume that the people entrusted with policy and administration of the World Bank, the United Nations, the International Labor Organization, the Alliance for Progress, and so on are well-meaning and reasonably intelligent people. So the question is this: Why have they failed so dismally in spite of the enormous resources at their disposal? The explanation might well be that their ideological position is unsound. And if their diagnosis is faulty, their remedies are not likely to help, but rather may aggravate, complicate, and make chronic the disease. So let us examine some of the notions that guide them.

It is held, for instance, that countries that are rich are rich due to their natural resources. Whereas any owner of a natural resource is

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This article is slightly condensed from a paper delivered before Trustees and guests of The Foundation for Economic Education at a dinner meeting in Tarrytown, N.Y., May 15, 1978.

wealthier with it than without it, this does not prove that natural resources are a necessary condition to wealth. There are many countries without appreciable resources, such as Switzerland and Holland and Japan, that are rich. There are various other countries that have been generously endowed by nature but most of their people are impoverished.

Also untenable is the premise of a "vicious circle of poverty," the notion that the poor stay poor because

they cannot accumulate savings to generate the capital necessary to substantially increase productivity. The fact that there *are* rich countries denies the very idea. Were not the rich poor at one time? Were not Germany and Japan quite impoverished as recently as thirty years ago? Their rapid reconstruction was not accomplished by exploiting colonies, for they had none. And that explodes another of the notions utilized to explain poverty—that one nation grows rich by exploiting another.

Historical facts also refute the fallacy that to have economic growth the economy must be planned. Who planned the economic development of the U.S., of England, of Japan, of post-war Western Germany or of Argentina up until the onset of the destructive ideology of central planning? The economic history of those countries proves to anyone not blinded by ideology that governmental planning is no necessary condition for economic development. Indeed, one could even relate the *decrease* in the rate of wealth creation to the extent that countries have undertaken governmental planning of their economies.

Another prevalent historical error is that we—in Latin America—are poor because in the past capitalism did not work for us. I ask: When and where did we have a free market capitalistic economy? And I answer:

In those few places where for a brief time it was tried, the results were outstanding. The problem is precisely that we have *not* had the competitive capitalism that is blamed as the cause of our poverty.

### **Exploited by Whom?**

It is also held that we, the so-called banana republics, were exploited by the United Fruit Company. I recall a conversation I overheard at a party, where a friendly communist was explaining how the United Fruit Company had taken out of Guatemala millions of dollars. A person who had worked with the fruit company in his youth responded that to his knowledge the company never took a penny out of Guatemala; the only thing they took out were bananas. They brought money in—capital—to draw laborers from lower wage occupations to their banana plantations. Nevertheless, people continue to ignore the obvious and believe that we were exploited.

We are not poor because our laborers are inept, or fall below the quality of laborers in other countries that have prospered. In general, I would say workmen in Guatemala are above average in learning and working ability, when conditions demand it.

Nor are we poor because we lack technical know-how. Technical knowledge now is available to any-

one who wants to obtain it. And we have the additional advantage that to reach a modern level of production, we do not have to wait for better technology than already exists in the market, or invent it, or spend millions for research. All the know-how we need for the most significant advances already is available to us from developed countries.

What we lack are two things: first, a system that is conducive to efficient economic allocation of human and material resources and to the generation of capital; and second, more capital to increase productivity and create wealth.

The system, of course, is capitalism, and it is there waiting to emerge all the time. So why is it rejected and deliberately prevented from emerging? Incidentally, it is, as we know, the only system that promotes and builds the qualities of individual character that are most conducive to progress: self-reliance, frugality, responsibility, and respect for the rule of law.

### **Capitalism Maligned**

So why is it rejected? On one hand, there is a practical objection to allowing individual freedom of production: Capitalism is considered wasteful, inefficient, and in any case, too slow: we cannot afford, we hear, politically speaking, to go slow, and so we cannot just let things happen when and if they

happen. We must *make* progress. Not just let it happen. On the other hand, there is an ethical objection: it is thought cruel and unjust because it results in economic differences called inequalities.

The first objection as to the impracticability of the market system in Less-Developed Countries (LDCs) has greatly disturbed me because the scientific refutation is available to all. After all, the market system is not someone's invention. It is what goes on naturally if it is not prevented deliberately. And economic theory is nothing more than an explanation of how it *does* work, how resources are allocated *through* the price system. We are at liberty not to like the way the world is, but lamentations are utterly useless and will not change the world. The only argument which would deserve serious consideration would be the proposal of an alternative system. But, as far as I have been able to determine, no one has yet proposed an alternative system for allocation of resources. Marx did not. Oskar Lange, in the thirties admitted it, and today it constitutes the "unspoken" problem of central planning or socialism.

No one knows, in theory, much less in practice, how this alternate system would work. The authorities lack the criteria, in the absence of private property and free exchange, to establish a substitute for the price

system. Such a substitute is needed to permit them to compare alternative methods of production so as to use each resource in the way that makes the maximum contribution to consumer satisfaction. This is most certainly not the system socialist countries use today—they simply copy prices of the outside semi-capitalist world.

Until such an ingenious mechanism is incorporated into planning schemes, we can state correctly that socialism—as a system of social organization—has not yet been proposed. Yet the people of the world are killing each other, some in favor of socialism, others against it, but both assuming that it has already been proposed *as a system*, and therefore it is a tenable system of social organization. When this senseless tragedy is recognized I believe it will become, to historians, the distinguishing characteristic of this century: People killing each other over something neither side could describe.

### **Planning Without Prices!**

The question, of course, is not how you plan when you *do* have prices available from outside the system; the question is how do you arrive at prices without any reference to prices that have come about through free exchange, i.e., from the existence of private property.

Unless *that* is explained, a plan-

ner cannot know what he is doing, he can't compare values of inputs with outputs. And if the method cannot be described, socialism is just a gleam in the eye of the frustrated.

So, from a strictly practical point of view, we know that whereas the market does not produce instant wealth, it eventually can and does produce it. And so far we've been offered no clear alternative to even consider. Of course, if the market is prevented deliberately from working, it will not produce. And unfortunately, not only is it being prevented from working, but it is being blamed for *not* working.

There is really nothing original or unique in the ideology of underdevelopment. Most of the notions are imported from countries that should know better; and they are being imported by way of programs that are, ironically, implemented with the intention of generating development.

One of the characteristic differences between developed and underdeveloped countries, however, is that whereas it will take a great deal of debate for the government of the U.S., for instance, to take over one railroad company (a piecemeal and eroding process), when an LDC decides overnight to go into the rail transport business it takes it all at once. When it decides that although electric power is a desirable commodity, it should be a non-profit

activity, it thereupon decrees that it is against the law to peacefully manufacture and voluntarily distribute this desirable commodity. It takes over all power production notwithstanding all the productive and desirable activities that, from then on, cannot be economically done for lack of competitively priced power to industry. Governments in LDCs do not just put a power plant here and there. First they prohibit profit-making power generation, whether they are in a position to provide it or not.

### **An Illogical Barrier**

This procedure is not logical. It is irrational to prohibit activities considered desirable on grounds that because they are desirable the government ought to provide them. Logic and consistency would demand that if an activity is considered so important that the government must step in to perform it, it should not be made illegal for someone else to contribute voluntarily to the same ends. The policy is not logical or economic; it is ideological. And because of it, power costs are extremely high, reducing the competitiveness of all industrial activities in LDCs.

It is inconceivable today that anyone would consider going voluntarily into the electric power business. That disincentive alone is sufficient to maintain underdevelopment, and

generally, the same applies to all communication activities: air and ocean transport, ports, telephones. Whereas such a venture once constituted a business opportunity, it is no longer even a possibility. This is not due to economic factors. It is the result of ideology. How can desirable activities become illegal acts other than as a result of ideology?

### **Hampering Education**

Consider education. Everyone regards it a desirable activity. Parents generally want their children to be better educated than themselves. There is plentiful evidence that they will make great sacrifices to this end. But their children cannot get the education the parents think they need. A high government official in my country remarked that our education programs are not well-oriented because they tend to prepare everyone for college whereas most will never go, and in fact should not go, to college. And yet, he did not disagree with the policy of setting a maximum tuition charge for private schools, low enough to drive many out of business (even though private high schools serve 50 per cent of the student population and in many cases offer better and more pertinent education than the government can provide).

The imposition of maximum legal tuition rates is obviously ideological. But there are more serious ef-

fects of the ideological confusion of the elite in education: their confusion actually *prevents*, to a very large extent, proper education. In the social sciences, "book burning," in a figurative way, is prevalent for a very natural reason: in any hierarchical organization it is only natural that the competence of the personnel hired to teach, and the suitability of the books used, be determined by their agreement with what the hiring authorities think is valid or true.

When the uniformity of thought required in the hierarchical organization is entrenched, its members cannot afford to have their competence questioned; they instinctively or deliberately exclude theories that might expose members of the hierarchy as incompetent. Thus, the ideology of their expertise is protected, and competitive ideologies are excluded.

### **Interfering with Wages**

Consider this example of labor legislation adopted through the official recommendations of the International Labor Organization: Workers get severance pay when fired for any cause not attributable to them. If the company goes broke or loses a contract, the cause is not imputable to the worker, so he must be paid. Severance pay is calculated on the basis of his last wage, multiplied by the number of years of employment.

The object is to create job security and supposedly avoid injustices.

Naturally, as workers accrue severance pay they lose their mobility, because the cost of leaving a job voluntarily is to lose one's severance pay. Thus, there is no incentive for an employer to raise wages, whether to hold present workers or to attract new ones. As a result, the worker has no bargaining power. The lack of mobility of the labor force prevents relocation into more productive jobs and thus lowers the output of the whole economy and decreases everyone's real income. The implementation of much of this type of legislation in LDCs has cost the U.S. taxpayer many millions of dollars through the financing of ideologically impoverishing institutions such as the ILO or the United Nations.

The ideological hostility to the market system has also caused most countries to practice an economically isolationist tariff policy. In order to understand the impoverishing effects of obstructing the international division of labor, one must have a clear understanding of the law of comparative advantage. It is necessary to understand why, in a free exchange, both parties gain, and that some people's wealth is not the cause of others' poverty. In other words, there is no such thing as exploitation in a free exchange. Obviously, the recognition of this fact

alone would utterly shatter collectivist philosophy and so the truth must be suppressed. The result is isolationism, underdevelopment.

Capital accumulation, the most important factor in development, is heavily taxed and inhibited, when not destroyed, for ideological reasons. One can trace directly the destructive attitude toward foreign investment, energy policies, mining policies, and so forth to its ideological source.

### **Changing the Ideology to Open the market**

The hostility to the market system which exists all over the world in varying degrees is especially prevalent in LDCs. Many LDCs that have tried the welfare state have had to start again from scratch, usually with the only type of government that does not consult the people: dictatorship. Dictators are not necessarily unpopular, and many govern with the wholehearted support of the majority of their people, as in Chile and Argentina. The reason is not hard to find. If what was supposed to become a democratic welfare state destroys prosperity

and the security of life and property, people will welcome a savior even if he becomes a dictator. He doesn't raise welfare expectations; he promises law and order. If he pursues the welfare course, conditions deteriorate, and this opens the opportunity for his rivals to overthrow him. We have seen this happen over and over again. Many dictators become oppressive and ruthless in order to stay in power longer, but sooner or later, their rivals muster enough support to take over. This support is forthcoming when people feel they are becoming poorer in real terms or relative to unrealistic expectations, and when disorder is increasing. Therefore, a socialistically inclined government is inherently unstable.

Until this destructive socialistic ideology is exposed as false and displaced with an appreciation of the capitalistic market economy, there is no chance for a people or a nation to develop. This is why we founded the Universidad Francisco Marroquín in Guatemala. And the intervening seven years of operation strengthen our conviction that we chose the most effective way to reach our objective. ☉

#### IDEAS ON **Wisdom**



LIBERTY

THE ESSENCE of the past is experience; the essence of the future is opportunity; and the essence of wisdom is to properly connect the two.

JACKSON D. PEMBERTON

# The Individual in Society

THE words freedom and liberty signified for the most eminent representatives of mankind one of the most precious and desirable goods. Today it is fashionable to sneer at them. They are, trumpets the modern sage, "slippery" notions and "bourgeois" prejudices.

Freedom and liberty are not to be found in nature. In nature there is no phenomenon to which these terms could be meaningfully applied. Whatever man does, he can never free himself from the re-

straints which nature imposes upon him. If he wants to succeed in acting, he must submit unconditionally to the laws of nature.

Freedom and liberty always refer to interhuman relations. A man is free as far as he can live and get on without being at the mercy of arbitrary decisions on the part of other people. In the frame of society everybody depends upon his fellow citizens. Social man cannot become independent without forsaking all the advantages of social cooperation.

The fundamental social phenomenon is the division of labor and its counterpart—human cooperation.

Experience teaches man that cooperative action is more efficient and productive than isolated action of self-sufficient individuals. The natural conditions determining

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In the tradition of the Austrians Carl Menger and Eugen von Böhm-Bawerk, Ludwig von Mises (1881-1973) did more than any other to develop and bring to world attention the science and system of economics applicable to the purposive individual as he acts in the real world. This article is extracted from his book, *Human Action* (Yale University Press, 1949; Regnery, 1966).



man's life and effort are such that the division of labor increases output per unit of labor expended. These natural facts are: (1) the innate inequality of men with regard to their ability to perform various kinds of labor, and (2) the unequal distribution of the nature-given, nonhuman opportunities of production on the surface of the earth. One may as well consider these two facts as one and the same fact, namely, the manifoldness of nature which makes the universe a complex of infinite varieties.

The division of labor is the outcome of man's conscious reaction to the multiplicity of natural conditions. On the other hand, it is itself a factor bringing about differentiation. It assigns to the various geographic areas specific functions in the complex of the processes of production. It makes some areas urban, others rural; it locates the various branches of manufacturing, mining, and agriculture in different places. Still more important, however, is the fact that it intensifies the innate inequality of men. Exercise and practice of specific tasks adjust individuals better to the requirements of their performance; men develop some of their inborn faculties and stunt the development of others. Vocational types emerge, people become specialists.

The division of labor splits the various processes of production into

minute tasks, many of which can be performed by mechanical devices. It is this fact that made the use of machinery possible and brought about the amazing improvements in technical methods of production. Mechanization is the fruit of the division of labor, its most beneficial achievement, not its motive and fountain spring. Power-driven specialized machinery could be employed only in a social environment under the division of labor. Every step forward on the road toward the use of more specialized, more refined, and more productive machines requires a further specialization of tasks.

### **Innate Inequality Within Society**

Seen from the point of view of the individual, society is the great means for the attainment of all his ends. The preservation of society is an essential condition of any plans an individual may want to realize by any action whatever. Even the refractory delinquent who fails to adjust his conduct to the requirements of life within the societal system of cooperation does not want to miss any of the advantages derived from the division of labor. He does not consciously aim at the destruction of society. He wants to lay his hands on a greater portion of the jointly produced wealth than the social order assigns to him. He would feel miserable if antisocial behavior were to

become universal and its inevitable outcome, the return to primitive indigence, resulted.

Liberty and freedom are the conditions of man within a contractual society. Social cooperation under a system of private ownership of the means of production means that within the range of the market the individual is not bound to obey and to serve an overlord. As far as he gives and serves other people, he does so of his own accord in order to be rewarded and served by the receivers. He exchanges goods and services, he does not do compulsory labor and does not pay tribute. He is certainly not independent. He depends on the other members of society. But this dependence is mutual. The buyer depends on the seller and the seller on the buyer.

### **Self-Interest**

The main concern of many writers of the nineteenth and twentieth centuries was to misrepresent and to distort this obvious state of affairs. The workers, they said, are at the mercy of their employers. Now, it is true that the employer has the right to fire the employee. But if he makes use of this right in order to indulge in his whims, he hurts his own interests. It is to his own disadvantage if he discharges a better man in order to hire a less efficient one. The market does not directly prevent anybody from arbitrarily inflicting

harm on his fellow citizens; it only puts a penalty upon such conduct. The shopkeeper is free to be rude to his customers provided he is ready to bear the consequences. The consumers are free to boycott a purveyor provided they are ready to pay the costs. What impels every man to the utmost exertion in the service of his fellow man and curbs innate tendencies toward arbitrariness and malice is, in the market, not compulsion and coercion on the part of gendarmes, hangmen, and penal courts; it is self-interest. The member of a contractual society is free because he serves others only in serving himself. What restrains him is only the inevitable natural phenomenon of scarcity. For the rest he is free in the range of the market.

In the market economy the individual is free to act within the orbit of private property and the market. His choices are final. For his fellow men his actions are data which they must take into account in their own acting. The coordination of the autonomous actions of all individuals is accomplished by the operation of the market. Society does not tell a man what to do and what not to do. There is no need to enforce cooperation by special orders or prohibitions. Non-cooperation penalizes itself. Adjustment to the requirements of society's productive effort and the pursuit of the individual's own concerns are not in conflict.

Consequently no agency is required to settle such conflicts. The system can work and accomplish its tasks without the interference of an authority issuing special orders and prohibitions and punishing those who do not comply.

### **Beyond the Market, Compulsion and Coercion**

Beyond the sphere of private property and the market lies the sphere of compulsion and coercion; here are the dams which organized society has built for the protection of private property and the market against violence, malice, and fraud. This is the realm of constraint as distinguished from the realm of freedom. Here are rules discriminating between what is legal and what is illegal, what is permitted and what is prohibited. And here is a grim machine of arms, prisons, and gallows and the men operating it, ready to crush those who dare to disobey.

It is important to remember that government interference always means either violent action or the threat of such action. Government is in the last resort the employment of armed men, of policemen, gendarmes, soldiers, prison guards, and hangmen. The essential feature of government is the enforcement of its decrees by beating, killing, and imprisoning. Those who are asking for more government interference are

asking ultimately for more compulsion and less freedom.

Liberty and freedom are terms employed for the description of the social conditions of the individual members of a market society in which the power of the indispensable hegemonic bond, the state, is curbed lest the operation of the market be endangered. In a totalitarian system there is nothing to which the attribute "free" could be attached but the unlimited arbitrariness of the dictator.

There would be no need to dwell upon this obvious fact if the champions of the abolition of liberty had not purposely brought about a semantic confusion. They realized that it was hopeless for them to fight openly and sincerely for restraint and servitude. The notions liberty and freedom had such prestige that no propaganda could shake their popularity. Since time immemorial in the realm of Western civilization liberty has been considered as the most precious good. What gave to the West its eminence was precisely its concern about liberty, a social ideal foreign to the oriental peoples. The social philosophy of the Occident is essentially a philosophy of freedom. The main content of the history of Europe and the communities founded by European emigrants and their descendants in other parts of the world was the struggle for liberty. "Rugged" individualism is the

signature of our civilization. No open attack upon the freedom of the individual had any prospect of success.

### **New Definitions**

Thus the advocates of totalitarianism chose other tactics. They reversed the meaning of words. They call true or genuine liberty the condition of the individuals under a system in which they have no right other than to obey orders. They call themselves true *liberals* because they strive after such a social order. They call democracy the Russian methods of dictatorial government. They call the labor union methods of violence and coercion "industrial democracy." They call freedom of the press a state of affairs in which only the government is free to publish books and newspapers. They define liberty as the opportunity to do the "right" things, and, of course, they arrogate to themselves the determination of what is right and what is not. In their eyes government omnipotence means full liberty. To free the police power from all restraints is the true meaning of their struggle for freedom.

The market economy, say these self-styled liberals, grants liberty only to a parasitic class of exploiters, the bourgeoisie; that these scoundrels enjoy the freedom to enslave the masses; that the wage earner is

not free; that he must toil for the sole benefit of his masters, the employers; that the capitalists appropriate to themselves what according to the inalienable rights of man should belong to the worker; that under socialism the worker will enjoy freedom and human dignity because he will no longer have to slave for a capitalist; that socialism means the emancipation of the common man, means freedom for all; that it means, moreover, riches for all.

These doctrines have been able to triumph because they did not encounter effective rational criticism. It is useless to stand upon an alleged "natural" right of individuals to own property if other people assert that the foremost "natural" right is that of income equality. Such disputes can never be settled. It is beside the point to criticize nonessential, attendant features of the socialist program. One does not refute socialism by attacking the socialists' stand on religion, marriage, birth control, and art.

### **A New Subterfuge**

In spite of these serious shortcomings of the defenders of economic freedom it was impossible to fool all the people all the time about the essential features of socialism. The most fanatical planners were forced to admit that their projects involve the abolition of many freedoms peo-

ple enjoy under capitalism and "plutodemocracy." Pressed hard, they resorted to a new subterfuge. The freedom to be abolished, they emphasize, is merely the spurious "economic" freedom of the capitalists that harms the common man; that outside the "economic sphere" freedom will not only be fully preserved, but considerably expanded. "Planning for Freedom" has lately become the most popular slogan of the champions of totalitarian government and the Russification of all nations.

The fallacy of this argument stems from the spurious distinction between two realms of human life and action, the "economic" sphere and the "noneconomic" sphere. Strictly speaking, people do not long for tangible goods as such, but for the services which these goods are fitted to render them. They want to attain the increment in well being which these services are able to convey. It is a fact that people, in dealing on the market, are motivated not only by the desire to get food, shelter, and sexual enjoyment, but also by manifold "ideal" urges. Acting man is always concerned both with "material" and "ideal" things. He chooses between various alternatives, no matter whether they are to be classified as material or ideal. In the actual scales of value, material and ideal things are jumbled together.

Freedom, as people enjoyed it in the democratic countries of Western civilization in the years of the old liberalism's triumph, was not a product of constitutions, bills of rights, laws, and statutes. Those documents aimed only at safeguarding liberty and freedom, firmly established by the operation of the market economy, against encroachments on the part of officeholders. No government and no civil law can guarantee and bring about freedom otherwise than by supporting and defending the fundamental institutions of the market economy. Government means always coercion and compulsion and is by necessity the opposite of liberty. Government is a guarantor of liberty and is compatible with liberty only if its range is adequately restricted to the preservation of economic freedom. Where there is no market economy, the best-intentioned provisions of constitutions and laws remain a dead letter.

### **Competition**

The freedom of man under capitalism is an effect of competition. The worker does not depend on the good graces of an employer. If his employer discharges him, he finds another employer. The consumer is not at the mercy of the shopkeeper. He is free to patronize another shop if he likes. Nobody must kiss other people's hands or fear their disfavor.

Interpersonal relations are businesslike. The exchange of goods and services is mutual; it is not a favor to sell or to buy, it is a transaction dictated by selfishness on either side.

It is true that in his capacity as a producer every man depends either directly, as does the entrepreneur, or indirectly, as does the hired worker, on the demands of the consumers. However, this dependence upon the supremacy of the consumers is not unlimited. If a man has a weighty reason for defying the sovereignty of the consumers, he can try it. There is in the range of the market a very substantial and effective right to resist oppression. Nobody is forced to go into the liquor industry or into a gun factory if his conscience objects. He may have to pay a price for his conviction; there are in this world no ends the attainment of which is gratuitous. But it is left to a man's own decision to choose between a material advantage and the call of what he believes to be his duty. In the market economy the individual alone is the supreme arbiter in matters of his satisfaction.

### **Consumers Choose**

Capitalist society has no means of compelling a man to change his occupation or his place of work other than to reward those complying with the wants of the consumers by higher pay. It is precisely this kind

of pressure which many people consider as unbearable and hope to see abolished under socialism. They are too dull to realize that the only alternative is to convey to the authorities full power to determine in what branch and at what place a man should work.

In his capacity as a consumer man is no less free. He alone decides what is more and what is less important for him. He chooses how to spend his money according to his own will.

The substitution of economic planning for the market economy removes all freedom and leaves to the individual merely the right to obey. The authority directing all economic matters controls all aspects of a man's life and activities. It is the only employer. All labor becomes compulsory labor because the employee must accept what the chief deigns to offer him. The economic tsar determines what and how much of each the consumer may consume. There is no sector of human life in which a decision is left to the individual's value judgments. The authority assigns a definite task to him, trains him for this job, and employs him at the place and in the manner it deems expedient.

As soon as the economic freedom which the market economy grants to its members is removed, all political liberties and bills of rights become humbug. Habeas corpus and trial by jury are a sham if, under the pretext

of economic expediency, the authority has full power to relegate every citizen it dislikes to the arctic or to a desert and to assign him "hard labor" for life. Freedom of the press is a mere blind if the authority controls all printing offices and paper plants. And so are all the other rights of men.

A man has freedom as far as he shapes his life according to his own

plans. A man whose fate is determined by the plans of a superior authority, in which the exclusive power to plan is vested, is not free in the sense in which the term "free" was used and understood by all people until the semantic revolution of our day brought about a confusion of tongues. ⊕

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*Reprints available, 10 for \$1.00.*

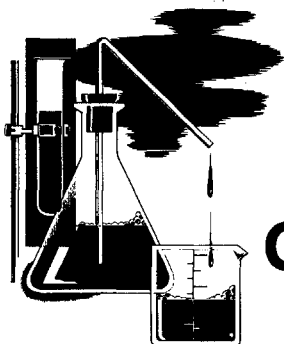
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### **The Guaranteed Life**

If the millions of workingmen in this country who are patiently paying their social security dues could glimpse the bureaucratic absolutism which that act presages for themselves and their children they would repudiate the whole monstrous and dishonest business overnight. When a government takes over a people's economic life it becomes absolute, and when it has become absolute it destroys the arts, the minds, the liberties and the meaning of the people it governs. It is not an accident that Germany, the first paternalistic state of modern Europe, was seized by an uncontrollable dictator who brought on the second world war; not an accident that Russia, adopting a centrally administered economy for humanitarian reasons, has arrived at a tyranny bloodier and more absolute than that of the Czars. And if England does not turn back soon she will go the same way. Men who are fed by their government will soon be driven down to the status of slaves or cattle.

**MAXWELL ANDERSON**, Written in  
a preface to *Knickerbocker Holiday*

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## A PERVERSION OF TECHNOLOGY

IN 1856 an eighteen-year-old English chemistry student, William Henry Perkin, thought he might find a source of synthetic quinine in coal tar. But serendipity, which has been defined as the faculty for making important discoveries by accident, took over in his test tube. Instead of quinine, Parkin evoked from his coal tar a bright purple solution that was the first of the aniline dyes.

Perkin tried to market his product in his own country, but the English went right on using berries, barks, flowers, eggs and insects for their dyestuffs. It took the Germans, with their genius for turning garbage into wealth, to build a fantastic chemical industry on Perkin's lucky mistake.

What began in the Perkin test tube was to have momentous consequences for the world, both for good and for ill. It was on dyestuffs that

I. G. Farben, the great German chemical cartel, grew to such tremendous proportions. The bright reds and yellows and the subtle blues that came out of the German laboratories were profitable but harmless. But dyestuff science and technology—and the funds they generated—had other, and more important, spin-offs.

It is the story of the spin-offs that fascinates Joseph Borkin, a Washington attorney who once worked for Thurman Arnold's antitrust division in the U.S. Department of Justice. The spin-offs—nitrates from the air, gasoline, oil and rubber from coal—have a tremendous potential for good. Synthetic nitrogen fertilizers, coming when they did, put the ghost of Malthus back in its shroud for a considerable stay, and the hydrogenization process of getting gasoline from coal may be the answer to the so-called energy crisis if



oil and natural gas ever do run out. But highly dangerous explosives can be made from nitrogen; and when gasoline from coal was commandeered by the Nazi state, it almost succeeded in making Hitler's Thousand-Year Reich a horrifying reality.

It is the perversion of chemistry and technology to political ends that is the subject of Mr. Borkin's *The Crime and Punishment of I. G. Farben* (The Free Press-Macmillan, 866 Third Avenue, New York, N.Y. 10022, 250 pages, \$10.95). The cartel idea is menacing enough in itself, but when a great cartel and a truly imperial state with pretensions to world rule combine in unholy matrimony the results, as we know from the experience of two world wars, can be devastating. In a lean and disciplined prose that drives straight to the heart of the matter, Mr. Borkin offers us both an exciting action story and a warning fable. This is the Faust legend in modern dress. And in the telling Mr. Borkin makes note of some tremendous ironies.

### **Patriotic Intentions**

The biggest irony of all is that the companies that were combined in I. G. Farben were started by good men. Fritz Haber and Carl Bosch, who together worked out the Haber-Bosch process for getting nitrogen out of the air, were good patriots.

Haber, a Jew, had ideas about feeding the world with his nitrogen fixing discoveries, and Bosch, though he believed in industrial combination, always resisted the politicization of his company. The Nazi manias were furthest from their thoughts as they went about the patriotic business of freeing the Kaiser's Germany from dependence on mined nitrates from Chile.

If it hadn't been for the Farben laboratories and factories, World War I would have ended without the protracted slaughters of trench warfare. The German Schlieffen Plan was to wheel through Belgium and take Paris in a month. Stored nitrates from Chile would be enough to carry the Schlieffen Plan to a quick success. But the French taxicab army stopped the Germans at the Marne, and, with both sides digging trenches like mad, the Schlieffen Plan was dead. The Kaiser had to face up to the appalling fact that his army didn't have enough gunpowder to last a year of trench warfare.

So it was up to the German chemical industry. Fritz Haber and Carl Bosch leaped into the breach. When it became apparent that there would be a ticklish gap in time between the disappearance of gunpowder made from imported Chilean nitrates, now cut off by the British blockade, and the free flow of Haber-Bosch factory-produced nitric acid, Fritz Haber was confronted with a moral

crisis. Chlorine gas was in plentiful supply in the dyestuff plants, and it could be used at the front as a substitute for gunpowder. The chlorine that killed or wounded 15,000 Allied troops at Ypres was a desperation weapon, and could have been justified as such. But when Haber, still wrestling with his conscience, went along with a decision to use poison gas in the Russian East, his wife, Clara, committed suicide.

The price of patriotism came high to Fritz Haber, who was forced out of I. G. Farben to keep the Nazis from proclaiming it a "Jew company." He died in exile in Switzerland, a broken man. Bosch's fate was to be sidetracked after he made the mistake of telling Hitler to his face that the Nazi campaign against the Jews would set German chemistry back a hundred years. In dismissing Bosch Hitler roared, "Then we'll work a hundred years without physics and chemistry."

### **Slavery and Murder**

There were others in I. G. Farben who decided, some of them eagerly, some out of prudence, to hunt with Hitler to the end. Without Farben-made gasoline from coal and a buna rubber substitute from the same source, the Nazis could not have embarked on the conquest of Europe. One compromising thing led to another, and I. G. found itself building a huge industrial complex

next door to the Nazi death camp at Auschwitz. The decision to build at Auschwitz was dictated by a plentiful supply of water, which was needed in abundance for chemical processes. But Auschwitz also offered I. G. Farben an unending supply of slave labor. The company plumbed its own depth of depravity when it set up its own concentration camp, with a gallows to remind workers that hanging could be the penalty for even the most innocent disruption of shop routine.

For their crimes in abetting Hitler's murder policies and plundering the chemical companies of France and Poland, key I. G. Farben officials got off lightly enough. Borkin strains to be objective in reporting the sentences—"guilty of . . . slavery and mass murder, sentenced to imprisonment for six years." The excuse of some of the convicted officials could have been "duress," but if the Farben high command had chosen another site in preference to Auschwitz would the Nazis have intervened? It was not "duress" that had the company casting sheep's eyes at a source of cheap labor that could be literally worked to death.

Mr. Borkin leaves no doubt that there was considerable hanky-panky about the return of I. G. Farben-owned property, both inside Germany and in the United States, to German owners after both the big wars. Some mighty big names were

involved in deals that, in retrospect, seem more than faintly discreditable. Bribes were passed after World War I to shady hangers-on in the Harding Administration. And an effort was made to use a relative of the Kennedys to regain General Aniline and Film, seized by the U.S. during the second war.

The return of Farben properties after World War I had disastrous consequences to the allies during the Hitler years. We have been luckier in our post-World War II relinquishments. But Mr. Borkin wonders about the precedents we have set.

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### THE ANTITRUST PARADOX

by Robert H. Bork

(Basic Books, Inc., 10 E. 53rd Street, New York, N.Y. 10022, 1978)

388 pages ■ \$18.00

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*Reviewed by Melvin D. Barger*

WHEN it passed the Sherman Act in 1890, the U.S. Congress set the government on a new course—attempting to control the size and market influence of business organizations. The other early milestones in antitrust legislation were the Clayton Act and the Federal Trade Commission Act, both passed in 1914. Clayton involved the gov-

ernment in pricing decisions and was reinforced by the Robinson-Patman amendment in 1936, while the Federal Trade Commission Act mandated the setting up of an administrative agency to regulate competitive business practices. Except for occasional subsequent tinkering and threats, Congress has stayed out of the antitrust field, and antitrust policy has really been shaped by a series of landmark Supreme Court decisions.

According to Robert H. Bork, a large number of these Supreme Court decisions have been wrong, resulting in an antitrust policy that is at war with itself. Judicial performance on key antitrust decisions has been both inept and contradictory, seriously impairing business efficiency and imposing heavy penalties on the American consumer. The original purpose of antitrust legislation was the promotion of "consumer welfare," but any such ideal has long since been diluted by a complex chain of court decisions aimed at reaching various other social and political goals.

*The Antitrust Paradox* is a well-organized, well-written study of just how this happened, with some final thoughts about the general problem. Mr. Bork brings impressive credentials to this task. A full-time professor at the Yale Law School, he is a former Solicitor General of the United States and more recently

was a resident scholar at the American Enterprise Institute. Highly regarded in the legal profession, he is emerging as one of the new dissident intellectuals who can find some good things to say about the American business system. Like Milton Friedman and Irving Kristol, Mr. Bork is not a purist libertarian, but he is heavily oriented in free market principles and his writings clearly call for considerable freedom in business.

Mr. Bork opens his argument with some powerful comments about the current crisis in antitrust. We learn something about the antitrust enterprise, the lawyers, judges, economists and legislators who work unceasingly in antitrust to impose a complexity of rules on business. "Generally, these rules ignore the obvious fact that more efficient methods of doing business are as valuable to the public as they are to businessmen," Mr. Bork writes. "In modern times the Supreme Court, without compulsion by statute, and certainly without adequate explanation, has inhibited or destroyed a broad spectrum of useful business structures and practices. Internal growth to large market size has been made dangerous. Growth by merger with rivals is practically impossible, as is growth by acquisition of customers or suppliers. Even acquisitions for the purpose of moving into new markets have been struck

down, as the law evolves a mythology about the dangers of conglomerate mergers." There are other questionable Court positions: against cooperative ventures by independent businesses, against manufacturer control of product distribution, in favor of pricing behavior that actually leads to higher prices.

But even this unpleasant state of affairs may be only temporary. The current populist hostility to business makes it easy to blame every hardship on the major corporations, paving the way for further antitrust assaults on business. Indeed, there are a number of antibusiness people who might admit that antitrust has some intellectual problems but is a good idea because it keeps businessmen on the defensive. And among those professionally concerned with antitrust, Professor Bork says, there is disagreement about two basic questions: (1) the goals or values the law may legitimately and profitably implement; and (2) the validity of the law's vision of economic reality. Professor Bork obviously feels that consumer welfare should be the primary goal of antitrust, and he takes issue with much of the economic theory that guided many of the antitrust landmark decisions.

A large part of the problem is that any antitrust legislation requires making severe trade-offs. If the antitrust policy is aimed at maintain-

ing a certain number of producers in an industry, it may be at the cost of business efficiency and hence consumer welfare. Professor Bork does not pretend that a free market will always allow for a certain number of rivals to survive in an industry, but he does show that most successful firms become dominant largely through efficiency rather than as a result of predatory behavior. Again and again, however, this business success has been penalized by the courts simply because the judges failed to focus on the single goal of consumer welfare or used an unsound basis for economic reasoning.

While the goal of consumer welfare has its drawbacks, it would at least give the business community fair warning about the probable legality of its operations, it would tend to place intensely political and legislative decisions in Congress instead of in the courts, it would maintain the integrity of the legislative process, it would require more realistic economic reasoning, and it would avoid arbitrary or anticonsumer rules, Mr. Bork writes. But with antitrust policy pursuing many social and political goals, none of these things are being achieved.

Mr. Bork then goes on to analyze, case by case, the landmark Supreme Court decisions that led to the current crisis. Writing in a brisk, highly readable style, he dissects

these important decisions in such a way that the ordinary layman can understand them. There was the famous United Shoe Machinery decision, for example, which undermined machinery leasing practices without really determining whether the firm was being efficient or predatory. In the Brown Shoe case, a merger was ruled a threat to competition even though the acquiring firm and the firm being acquired had, respectively, only 4 and 0.5 percent of the nation's shoe output! And in one of the most well-publicized decisions of all, the Supreme Court ruled against Procter & Gamble's acquisition of Clorox on the grounds that Procter had advantages in advertising and promotion which would be anticompetitive.

Professor Bork mentions or analyzes about 80 cases which relate to the key topics of his book, and the effect is one of brilliant revisionism. He knocks down first one well-established argument and then another, demonstrating that in case after case the courts systematically destroyed consumer welfare while pursuing goals aimed at preserving competition, "protecting" the small businessman, or eliminating barriers to entry. The conclusion is inescapable that many of the antitrust landmark decisions which formed antitrust policy have been disasters for the consumer, as well as being destructive to business freedom.

In his Summation (what other term could a lawyer use for closing remarks!), Professor Bork calls for a sweeping reform of antitrust policy based on making consumer welfare the only policy goal. He specifies several forms of behavior that should continue to be proscribed by the law, but he goes on to argue that many of the practices that are now prohibited should be permitted, including agreements on prices, territories, refusals to deal (with certain qualifications), small horizontal mergers, all vertical and conglomerate mergers, vertical price maintenance and market division, and many other actions which most corporation lawyers now regard as off limits. Moreover, he does not feel that antitrust should be concerned with any firm size or industry structure created by internal growth or by a merger more than ten years old.

Professor Bork also acknowledges, in his final thoughts, that current antitrust policy was influenced by something deeper than erroneous reasoning. "To study antitrust at length, to wonder at the manifold errors of economics and logic displayed, to see that the errors move the law always in one direction, is to begin to suspect that a process much deeper than mere mistaken reasoning is at work," he writes. "It seems as though the intellectual terrain is regarded as important not in and for itself but as a field of action upon

which the political order moves against the private order."

Mr. Bork leaves no doubt that his sympathies also move in one direction, at least much of the time. He wants to protect and preserve the good in the private order and the free society. Most of the time, the private order loses in the antitrust struggle. But with heavyweight defenses such as *The Antitrust Paradox*, the private order may have a fighting chance. ☉

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## THE INFLATION CRISIS, AND HOW TO RESOLVE IT

by Henry Hazlitt

(Arlington House Publishers, New Rochelle, New York)

192 pages ■ \$8.95

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*Reviewed by Mark Spangler*

NOWADAYS people from every walk of life are concerned about inflation.

What actually is inflation? Is it inherent in a free market economy? Who or what is the cause—unions, government regulations, merchants, federal deficits, or middlemen? Can inflation be stopped, and how?

What to do? Most people are desperately confused and searching for answers. Society is facing nothing short of a crisis. In answer to this

grave situation comes Henry Hazlitt's latest book, *The Inflation Crisis, and How to Resolve It*. As Mr. Hazlitt himself begins the book, "No subject is so much discussed today—or so little understood—as inflation."

Henry Hazlitt estimates that a dollar of today is worth less than 25 cents of a 1940 dollar, and certainly no one has to be told that a dollar continues to buy less and less. Yet, how many people realize that since 1940 the federal government has increased the money stock by well over a *thousand* percent? Hazlitt reports that at the end of 1939 the total number of dollars in the economy was 63.3 billion, and at the end of 1977 that figure stood at *806.5 billion*. Anyone who is aware of these events should surely sense a logical connection between constantly rising prices and a continuous expansion of the money supply.

Mr. Hazlitt points out that there are two sides to every price: "A 'price' is an *exchange ratio* between a dollar and a unit of goods. When people have more dollars, they value each dollar less. Goods then rise in price, not because goods are scarcer than before, but because dollars are more abundant, and thus less valued." He clearly explains that the present predicament of ever-soaring prices results from a deliberate government policy to flood the economy with more and more dollars simply

by "printing" them, so to speak. In fact, the term "inflation" originally meant increasing (inflating) the money supply. Today the term is commonly used to mean the most evident consequence of creating money, generally rising prices.

So, nothing at all is mysterious about inflation; it is government intervention pure and simple. Why, then, do government leaders continue to inflate and why do the "printing presses" go undetected by the general public?

Inflation serves the immediate interests of vote-seeking politicians. Most office seekers promise scores of hand-outs in return for being elected, but the federal budget has become so ominous that financing by direct taxation is politically impossible. The federal government resorts to printing money to help cover any deficits, and that is done in a very complicated way through the Federal Reserve and commercial banking system so as to hide the process from most people.

Henry Hazlitt devotes a great deal of *The Inflation Crisis* to discussing government spending, deficit financing, and the fallacies in general of a government-managed monetary system. In addition, he explains the benefits of a market-determined gold standard.

His text ranges from presenting simple principles of money and inflation to refuting sophisticated

Keynesian doctrines, especially the notion that monetary expansion is necessary to employ idle workers and resources.

Equally important, Hazlitt analyzes policies of monetarists, generally led by Chicago School economist Milton Friedman. The distinction between monetarists and other advocates of free enterprise is often muffled. Henry Hazlitt makes plain that monetarists are inflationists, who advocate a certain annual rate of monetary expansion by government officials: "The central flaw of the Monetarist proposal is its extreme political naivete. It puts the power of controlling the quantity, the quality, and the purchasing power of our money entirely in the hands of the State, that is, of the politicians and bureaucrats in office." A consistent free market economist, on the other hand, would argue to let individuals, voluntarily acting in the marketplace, choose what commodity they will accept as money.

Hazlitt cautions about using false remedies to combat inflation. Attacking rising prices with wage-and-price controls misses totally the heart of the problem. They do *nothing* to halt the monetary expansion. Moreover, the controls themselves have the disastrous consequences of creating shortages, discouraging production, and moving ever toward a complete command economy.

Mr. Hazlitt also explains how inflation disrupts production, inhibits economic calculation, distorts interest rates, malemploys workers and resources, and consumes capital.

Just as serious as the economic disruption are the social consequences of inflation. It destroys thrift, promotes gambling, disheartens the spirit to work, and breeds social unrest, envy, and crime. "Under inflation . . . only a handful of people realize clearly what is going on. The majority tend to blame their plight, not on government, but on those of their neighbors who appear to be profiteering from inflation."

From the standpoint of economics, the cure for inflation is simple—stop it! Stop the politicians from printing money to pay for their spending programs; but herein lies the difficulty. The problem of inflation extends beyond economics, as Henry Hazlitt concludes, "A major part of the solution . . . will be *how to get the monetary system out of the hands of politicians*. Certainly as long as we retain our nearly omnipotent redistributive State, no sound currency will be possible." Ⓜ

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**Editor's Note:** *The Inflation Crisis, and How to Resolve It* is available at \$8.95 from The Foundation for Economic Education, Irvington-on-Hudson, N.Y. 10533.



# the Freeman

VOL. 28, NO. 11 • NOVEMBER 1978

- Perspectives on Hunger in the World** **John A. Sparks** **643**  
The history of famine and its causes, and how to combat them.
- The Social Responsibility of Business** **Brian Summers** **652**  
Business profit comes from the efficient use of scarce resources to best serve consumers.
- Those Mayflower Ecologists** **Ralph Bradford** **654**  
A satirical approach to some ancient and recurring problems.
- Do You Believe in Freedom?** **Sharon B. Mulwitz** **659**  
Each must extend and defend for others the freedom claimed for himself.
- World in the Grip of an Idea**  
**23. The Cold War: Revolutionary vs. Evolutionary Socialism** **Clarence B. Carson** **661**  
The distinction between principled and tactical opposition to communism.
- Labor in a Free Society** **Timothy Eshleman** **674**  
How the free market serves the laborer and those who want his services.
- The Rise and Decline of a Welfare State** **Sven Rydenfelt** **677**  
This report from Sweden explains that we are suffocating for lack of freedom.
- Book Reviews:** **685**  
"The Machinery of Freedom: Guide to Radical Capitalism" by David Friedman.
- A Literature of Freedom** **688**  
Brief reviews of books listed for sale by FEE.

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THE ATMOSPHERE in which problems of world hunger are discussed today is charged with emotion. Formerly there were those who quite properly called our attention to hunger in the world and advocated voluntary Christian charity as a response. But, increasingly, there is a harsher sound to the "hunger rhetoric." Some large and influential groups, for instance, are advocating the creation of a new "right to food." Others disdain talk of rights but they do make accusations ascribing "world hunger" to the existence of an "affluent West." What causes hunger in the world? Are matters getting worse today or better? What should be our perspectives on hunger in the world?

Dr. Sparks is Associate Professor of History and Director of the Institute on Public Policy and Private Enterprise at Grove City College in Pennsylvania.

Famine, the severe shortage of food in a wide geographic area, has been *the rule* rather than the exception throughout most of history. Biblical accounts frequently mention famine. A vast famine sent Abraham and then Joseph's family to Egypt. Famine sets the stage for much of the book of Ruth; famine occurs during King David's reign. There are at least a dozen other references in the Bible to famine.

In more recent periods, observers report that there were *ten famines* in what we call Europe during the *10th century* and *twenty-six famines* in the *11th century*.<sup>1</sup> In the 13th century famine occurred in England and Ireland at the beginning of the era (1203) and again in England only six years later (1209). During the English famine of 1239, there were reports of people eating their

children. Other serious famines during the 13th century were reported in Germany (1243), Sicily (1268), Poland (1281) and Scotland (1297).<sup>2</sup>

An analysis of the 14th century produces a similar picture of frequent famine. One historian summarizes it this way: "By 1300, almost every child born in western Europe faced the probability of extreme hunger at least once or twice during his expected 30 to 35 years of life."<sup>3</sup> More particularly *general* famine was reported in France in 1304, 1305, 1310, 1315-1317, 1330-1334, 1344, 1349-1351, 1358-1360, 1371, 1374-1375 and 1390.<sup>4</sup> There were many more local famines. During this century in which Europe suffered so many food crises, it is well worth noting that India was no better off. Her worst known famine occurred in 1396 and lasted for 12 years.<sup>5</sup> General famine was the rule rather than the exception during century after century of history.

In the 19th and 20th centuries the pattern of famine was altered. Agricultural economist D. Gale Johnson says that famine has *decreased* in the two most recent centuries both as a percentage of the world's population affected by serious hunger and in terms of absolute numbers of persons dying from hunger.<sup>6</sup> Put another way, in parts of the world which previously faced famine decade after decade, hunger

is no longer a problem. Yet food disasters continue to occur in other parts of the globe. Why was famine so *prevalent* in past centuries and why does it continue in *some* parts of the world today?

### War and Political Instability

Famine often follows war. The reason is not difficult to understand. War creates grave, continuous disruption of agricultural endeavors. It is no coincidence that the hungry European 14th century parallels the "Hundred Years War" (1337-1453), that long series of clashes between France and England. Food production was set back then because the soldiers scorched fields, destroyed the few farming tools in existence, and burned mills, barns, manors, vineyards and orchards.<sup>7</sup> Fearing for their lives, farmers frequently fled to the towns. Economists say that such military actions brought food hardships because capital goods, those implements used in further production of food, were destroyed. Moreover, labor was frightened away from the necessary site of production.<sup>8</sup> Though farmers could easily return to the land when the danger had passed, the replacement of capital goods—draft animals and barn—especially in the medieval economy, was slow and painful. Consequently, agricultural production was badly hurt immediately and for decades to come.

In the most recent centuries food shortages of various magnitudes have accompanied great wars. But in addition, the threat of famine has flourished in the economic turmoil produced by *modern internal revolutions*. Observing the French Revolution in 1791, Carlyle wrote: ". . . bread, always dear, is getting dearer."<sup>9</sup> Referring to the year 1793 in France another historian observed that: "The people were weary of being dragged from crisis to crisis. Industry was in ruins, famine menaced the cities."<sup>10</sup>

Those modern revolutions which are heirs to the French Revolution have produced similar effects on agriculture. For example, Mao's "Great Leap Forward" (1958-1960), a revolutionary effort to "purify" Chinese Communism and release it from the control of Soviet Communism, had a deleterious impact upon food provision. Chinese peasants were forced by the revolution to accept the commune system, relinquish their small private plots and take work assignments in nonagricultural production. As a result, there is reliable evidence that a famine of considerable size occurred in China in 1959. The Great Leap forward was actually a giant step backward for Chinese food production.

Unceasing revolutionary disruptions have caused food scarcity in many South American republics, in

Asia, and most recently in Africa. The atmosphere necessary for dependable food production is *not* relentless revolutionary strife, bloodshed, burning and war, but peace, order and liberty for the individual producers.

### **Institutionalized Envy in Less Developed Countries**

Among the causes of famine is one described by Eric Wolf as "institutionalized envy."<sup>11</sup> Such institutionalized envy exists in the tribal and village cultures of many of the less developed countries—envy nourished by social practice. Institutionalized envy's impact upon all forms of economic production can be grave indeed. Sociologist Wolf reported some years ago that in certain South American villages a farmer who raised crops superior to those of his neighbors would be the object of intense envy. Because he feared such social ostracism, he would make every effort not to "stand out" above the rest, that is, not to produce above the average.<sup>12</sup> Consequently, social attitudes helped to restrain the successful, innovative, or energetic agricultural producer. Similarly, another observer recently reports that Guatemalan Indians who manage to achieve high relative incomes often secrete their wealth because they fear the charge that they are becoming "Latins," that is, like the

Spanish speaking, non-Indian population.<sup>13</sup> One does not know how many others eschew successful production or higher incomes in order to avoid the resentment of their fellow Indians.

Among Northern Rhodesian tribes, a prosperous person may be suspected of black magic. A good crop yield, for example, may be attributed to the fruitful farmer's evil use of a magical crow which it is alleged stole seed from the fields of neighbors and thereby produced a good crop for the high-yield farmer.<sup>14</sup> Though such an explanation is logically deficient by Western standards, natives will go to great ends to avoid such charges. Tribal and family claims can have a similar discouraging effect upon the productive.

S. Herbert Frankel tells the story of a hapless Ghanaian tribal chief whose abilities earned him a position in the offices of a European exporting firm. Whenever his relatives thought he had accumulated any savings they met him outside the bank to apply "the thumbscrews of family obligation."<sup>15</sup> Frankel says that in West Africa it was common for unscrupulous relatives to covet and demand the wealth and income of more productive family members, thus increasing the difficulty of saving and reducing the capital available for urgently needed agricultural investment.

### **Governmental Policies**

Ill-considered governmental policies have increased the likelihood of famine. The imposition of price controls gives a common example. Economists agree that a shortage of a particular good can certainly be contrived by fixing the price of the commodity below what its normal market price would have been. When such a policy is followed, less of the commodity will be produced and more will be demanded. The resulting shortage will continue as long as the unwise governmental price control remains in effect. Quite understandably, price controls are often found in the midst of famine.

Consider the food crisis about which most Americans have knowledge, the famine during 1973 in the African region known as the Sahel. Western television beamed news reports about the food hardship in the six West African countries of Mauritania, Senegal, Mali, Upper Volta, Niger and Chad. A severe drought, it is true, helped to precipitate the mass famine. But here is the additional sad, irrational fact—the governments of the Sahel had followed the practice of keeping the prices of farm produce artificially depressed in order to keep food prices low for urban dwellers.<sup>16</sup> The abnormally low prices increased the dearth of food by making it uneconomical for food to be produced

locally or imported except on illegal, cumbersome "black markets." Only the response of Western nations through relief agencies kept famine deaths as low as 100,000.

In like manner the government of India, the country which contains within its borders nearly one half of the world's food problem, has irrationally thwarted the progress of food production in that food-hungry land. The government has generally held farm prices for rice below market prices. As a result, the new high-yield varieties of rice have not been adopted as rapidly as was hoped for.<sup>17</sup>

Another governmental policy which inhibits food output is strict opposition by the state to the private ownership of property. Private ownership of personal and real property provides strong natural incentives to produce which cannot be duplicated by those economic systems which deny property rights. The food disasters of bygone centuries were made more intense and frequent by the hobbling effect on production of communal land ownership. The Soviets have had to live with the harmful effects of "collective ownership," namely, poor crop production on state farms, and at the same time, the embarrassing fact that disproportionately large amounts of farm produce are raised on the small, privately owned plots farmed by the peasantry in their

"spare time." Less developed countries which embrace state operated agriculture as "the only way to insure food progress" will reap, *not* food, but a whirlwind of misery and death.

### **Saving and Hunger**

Even in those less developed countries where political stability is maintained, where ownership rights are protected, and where there are no coveting social attitudes, the key to agricultural productivity will depend upon the steady accumulation of capital savings. This pool of savings—money capital—finances the creation of production-increasing capital goods, that is, tools, machinery and equipment. In the less developed world, where basic food demands are great, the capital goods made possible by existing savings are likely to take the form of farm equipment or storage barns. In turn, the use of these capital goods will make greater food production possible.

However, the accumulation of capital savings from the resources of native savers is a slow and painful process. When personal incomes are low, then saving is, at first, halting. Pre-industrial Britain is a case in point. There the slow internal formation of capital took place over a period of 150 years before more rapid growth occurred.

Developing countries in the 19th

century (like the fledgling United States) did not have to rely alone upon the limited savings of *their own* citizens. The American commonwealth grew in part because foreign capital came to its shores. English and Scottish investors sank millions of dollars into agricultural ventures in the American West, for example. In 1883 there were 21 major British cattle companies in the West developing land, drainage and cattle raising. One, the Prairie Cattle Company ranged 100,000 cattle over 1 million acres—a capital investment of \$2.5 million. Total Scottish investment in U.S. cattle at the same time is estimated at \$25 million.<sup>18</sup>

Fortunately, today the people of less developed countries do not have to finance those capital improvements which would expand their food production out of their own meager savings. Capital is available for such purposes in Western capital markets. All that less developed countries need do to attract such savings is to demonstrate that they will be good hosts to foreign investors by maintaining a climate of safety for ventured savings. Unfortunately, as many times as not, the less developed countries have driven away foreign capital by their insistence upon expensive investment prerequisites and policies of seizure. As a result, three-fourths of U.S. foreign investment is made

today in *already developed countries*—Canada, Europe, Japan and Australia—not in the less developed world.

### **False Explanations**

Food hardships are fostered by political instability, destructive social attitudes, and governments that work against saving and production. Nevertheless, current “world opinion” does *not* encourage the people of poor nations to see the true folly of their own national policies and ways. Instead, the poor and hungry are urged to believe that it is the prosperous West which is to blame for their plight. The gigantic, continued success of American capitalism must be at the expense of the world’s less fortunate, it is insinuated. According to anticapitalistic ideology, plenty for U.S. citizens is purchased by the poverty of Third World peoples.

None of these “exploitation theorists” understands very much about economic reality. But, they commonly make two charges that deserve analysis. First, they say that the colonialism and imperialism of the past gravely harmed the national economies of the underdeveloped world (including their ability to produce food) while at the same time bolstering the capitalistic West. Noted authorities on economic development disagree.



Professor Peter T. Bauer says that although it cannot be shown conclusively that past colonial presence brought with it an increase in material well-being, ". . . it is highly probable that over the last century or so the establishment of colonial rule in Africa and Asia has promoted, and not retarded, material progress."<sup>19</sup> Continues Bauer, ". . . the colonial governments established law and order, safeguarded private property and contractual relations, organized basic transport and health services, and introduced some modern financial and legal institutions."<sup>20</sup> In addition, colonial rule opposed conditions that were inimical to material progress such as frequent "civil and tribal war and the prevalence of slavery."<sup>21</sup> Colonialism did confer certain enduring benefits upon the colonies.

In answer to the charge that the West could not have advanced except at ruinous costs to underdeveloped nations, Bauer firmly summarizes: "The prosperity of the West has been generated by *its own population* and not achieved at the expense of Africa or other underdeveloped countries."<sup>22</sup> Today economists are forced to admit that Britain and France obtained virtually nothing in net economic benefits from their colonial possessions. Empire was unprofitable to the imperialist.<sup>23</sup> Private French and British investors, as often as not,

found better investment opportunities *outside* their nation's colonies rather than within them.<sup>24</sup> Portugal, which clung to its colonies for 400 years, longer than any other European nation, can only show for it the lowest per capita income in all of Europe.<sup>25</sup> Furthermore, if substantial "subservient colonies" are really a necessary ingredient for the success of Western capitalism, how can the extraordinary growth of the United States be explained?

True, America experienced a "brief moment of imperial fervor." But, the U.S. did not gain its limited "colonies" until the late 1890s at a point in time when it had *already* achieved a full century of remarkable economic development *without* colonial possessions. Moreover, how can such Western market-type economies—Canada, Australia, Switzerland, and Scandinavia—which have had no "colonies to exploit," and yet have prospered, be fit into the neat explanation that capitalistic economic progress depends upon regress elsewhere in the world? The formula which claims to demonstrate that the West fattens itself on the world's hunger is based upon a strained Marxist-Leninist ideology which is plainly refuted by reality.

The other indictment returned against the U.S. is that it is consuming too large a percentage of the

### Price Controls in France, 1789-1793

"The arguments in the convention relative to the matter ran the whole gamut from the principles of economic liberty advocated by the economists of the day to the radical abstractions of Robespierre and his followers, who swept commerce aside by maintaining that 'the food necessary to man is sacred as life itself,' and 'The fruits of the earth like the atmosphere belong to all men.'

"One of the most interesting of the many suggestions made in the convention was that of Barbaroux who advocated 'a plan to form local associations to collect and circulate information about the crops. In other words, for coercion he would substitute cooperation, believing that the French citizens, farmers and merchants included, would not turn a deaf ear to an appeal for common action against the oncoming peril' (famine). Price fixing finally became one of the characteristic features of the Reign of Terror, and when Robespierre and his councilors passed through the streets of Paris in the carts of the executioners the mob jeered saying, 'There goes the dirty maximum.'"

**HENRY E. BOURNE**, "Food Control and Price Fixing in Revolutionary France," *Journal of Political Economy*, February and March 1919

"world's grain supply." U.S. citizens today do consume per person as much as five times the grain (including grain fed to livestock) eaten by persons in *some* developing nations.<sup>26</sup> However, two things should be noted well. First, per capita grain use in the U.S. actually declined between 1909 and 1971 due, primarily, to the substitution of mechanical for animal power.<sup>27</sup> Second, far from being something ominous, the American's ability to partake of abundance is incontrovertible evidence that free, capital-equipped

workers produce more and therefore can demand more of all goods, including grain products.

Some observers who are economically naive believe that all that is needed to assure the world of enough food is for Americans to cut their grain consumption drastically. Apparently, the hamburgers and hot dog buns forgone will somehow be transformed into more grain for the impoverished, world-wide. What these opponents of the current level of consumption fail to realize is that were such a curtailment in grain

demand to occur, U.S. grain production (supply) would soon decrease as well. There is no convincing proof that the hungry in the rest of the world would be beneficiaries of such a reduction in U.S. consumer grain demand. What the poor countries of the world really need is *not* a lower standard of living for U.S. citizens, but a higher one for themselves.

### Conclusion

Christianity teaches its adherents that Faith should be completed by works of charity. The hearts of those

who have been blessed with the God-given gifts of orderly societies, of protection for legitimate economic undertakings, and of a social atmosphere where envy does not dominate, ought to respond to those who suffer, with corporate and individual giving. But, at the same time, the reasons for continuing food hardships ought to be proclaimed. For families world-wide could be receiving untold benefits which they, themselves, their ways, and their governments have made, as yet, unattainable. ☉

### —FOOTNOTES—

<sup>1</sup>E. P. Prentice, *Hunger and History* (Constitution and Free Enterprise Foundation: New York, 1939), p. 24.

<sup>2</sup>*Ibid.*, pp. 24, 25, and 26.

<sup>3</sup>Harry A. Miskimin, *The Economy of Early Renaissance Europe, 1300-1460* (Prentice Hall, Inc.: Englewood Cliffs, N.J., 1969), pp. 26-27.

<sup>4</sup>*Ibid.*, p. 26.

<sup>5</sup>E. Washburn Hopkins, *India Old and New* (Charles Scribner's Sons: New York, 1902), p. 236.

<sup>6</sup>D. Gale Johnson, *World Food Problems and Prospects* (American Enterprise Institute: Washington D.C., 1975), p. 17.

<sup>7</sup>Miskimin, p. 52.

<sup>8</sup>Miskimin, p. 53.

<sup>9</sup>Thomas Carlyle, *The French Revolution, Vol. II* (Thompson & Thomas: Chicago) p. 71.

<sup>10</sup>Henry E. Bourne, *The Revolutionary Period in Europe* (The Century Co.: New York, 1914) p. 194.

<sup>11</sup>Helmut Schoeck, *Envy* (Harcourt, Brace & World, Inc.: New York, 1966), p. 46.

<sup>12</sup>*Ibid.*, p. 47.

<sup>13</sup>James Luenberger, "Guatemala" (unpublished presentation), Grove City, Pa., April, 1978.

<sup>14</sup>Schoeck, p. 49.

<sup>15</sup>Schoeck, p. 60.

<sup>16</sup>J. W. Sewell & L. M. Street, *Is the Sahel a Wasteland?* (Overseas Development Council: Washington D.C., 1976).

<sup>17</sup>Johnson, p. 75.

<sup>18</sup>Roger V. Clements, "British Investment and American Legislative Restrictions in the Trans-Mississippi West, 1880-1900" in T. C. Cochran & Thomas B. Brewer, *Views of American Economic Growth* (McGraw-Hill Book Co.: New York, 1966), pp. 163-164.

<sup>19</sup>P. T. Bauer, *Dissent on Development* (Harvard University Press: Cambridge, 1972), p. 149.

<sup>20</sup>*Ibid.*

<sup>21</sup>Bauer, p. 149.

<sup>22</sup>Bauer, p. 169. (Italics added)

<sup>23</sup>Kenneth E. Boulding & T. Mukerjee, eds., *Economic Imperialism* (University of Michigan Press: Ann Arbor, 1972), p. xiii.

<sup>24</sup>Mark Blaug, "Economic Imperialism Revisited," *The Yale Review*, 50 (March, 1961), pp. 341-342.

<sup>25</sup>Boulding, p. xiii.

<sup>26</sup>Johnson, pp. 35-36.

<sup>27</sup>Johnson, p. 37.

# The Social Responsibility of Business

THE current debate over the social responsibility of business can perhaps be clarified by focusing on what *society* and *business* are—and what they are not.

Society is a collective concept designating a group of people. It is an abstraction, not an entity. Society has no body, no soul, no conscience, and no responsibilities. Only individuals have these attributes.

Business is also an abstraction, not a separate being. A business has no goals; businessmen have goals. A business has no responsibilities; businessmen have responsibilities. Instead of speaking of the "social responsibility of business," it is more accurate to speak of the "personal responsibilities of businessmen."

What, then, are the personal re-

sponsibilities of businessmen? It is almost presumptuous to even ask such a question, since no one has more than a vague idea of another person's responsibilities. However, we can make a few general comments pertaining to the businessman's status as an owner or as an employee.

We can say almost nothing about the responsibilities of an individual proprietor, except that he should pay his bills, live in a civilized manner, and obey the rules of common decency. Beyond that, what he does with his business is just that—his business, not ours.

It is somewhat different with corporate executives. Unlike a proprietor, an executive is not working with his own investment; he is working with the investments of the corporation's stockholders. Thus, he

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

is responsible to the stockholders. If the stockholders tell him to use corporate funds to support education, hire the handicapped, establish youth centers, combat drug abuse, and aid community development, it is his responsibility to do so.

But if the stockholders tell him only to earn profits, that is his sole corporate responsibility. However, this does not completely preclude corporate involvement in community affairs. Company-sponsored community programs can improve worker morale, engender good will, and thus aid the executive in fulfilling his responsibility to the profit-seeking stockholders.

The executive is responsible for his stockholders' investments, both over the short term and the long term. Thus, he must ask if, over the long run, he is endangering their capital investments by sponsoring programs inimical to capitalism. He must ask whether, in the long run, it will pay to advertise in antibusiness media. And he must consider whether the corporation should support institutions that are working to preserve what is left of the capitalist system.

Such a program of limited corporate responsibility will fail to satisfy many critics of capitalism. Perhaps this is because they fail to understand the operation of the free market profit and loss system.

In a free market, profit seeking performs a vital social function. Businessmen cannot arbitrarily set asking prices; competition leaves them little choice but to charge whatever the market will bear. Thus, the prime source of profits is the efficient use of scarce factors of production—conservation. The businessman earns profits by using as little as possible to provide consumers with as much as possible. The more a businessman cuts his costs of production, the more factors of production he leaves for other people to use. And the more he strives for profits, the more he must ignore his prejudices and deal with people solely on the basis of what they can contribute to the business.

The profit-seeking businessman tries to give consumers the most for their money while making the most efficient possible use of scarce resources. What is irresponsible about that? Ⓜ

### Our Duties

IDEAS ON



LIBERTY

OUR duties towards ourselves and towards our social environment coincide. Indeed, there is only one duty, namely to grow mature.

FRITZ KUNKEL

**Ralph Bradford**

A fish story is thanksgiving that the soul of the Mayflower passengers was not primarily ecological.

# THOSE MAYFLOWER ECOLOGISTS

THE SOUL of America was stirred to its depths in recent months by the awful implications of the world-shaking Snail Darter Case. Perhaps no event of recent times has provided at once such a severe testing of our composite character, and such a clear indication of our national destiny.

Recall the situation: A big dam, designed to impound certain waters for the dual purpose of flood control and water conservation, was stopped in its tracks, so to speak, when somebody discovered that, if completed, the dam's rising waters would seriously discommode a small colony of fishlets called Snail Darters.

Nobody had ever heard of them except a handful of ichthyologists concerned with marine esoterica, but no matter. The reaction was prompt and fearless. No more convincing example could be found, I suppose, of our concern for the welfare and safety of minorities. It should make us take heart. Our concern is not alone for the whales, sharks and tuna, but for the smallest of nature's children!

The Snail Darters are about two inches long, and they exist in several types, or families. Those living in the area of the dam in question number, I believe it is estimated, at perhaps ten or fifteen thousand. The immediate problem was that these little creatures like shallow, active water; and the pressure and relative immobility of the impounded water

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Mr. Bradford, of Ocala, Florida, is well known as a writer, poet, speaker, and business organization consultant.

might well be their undoing. Clearly, it was a tragic situation, a dramatic confrontation.

On the one hand, here were several thousand minnow-sized fish, about to have their native habitat radically changed and their lives imperiled, if not terminated. On the other hand, below the dam and for miles around there were a large number of human beings who had been led to believe that the dam would protect them from floods and furnish them with plenty of water for irrigation. Clearly there was a conflict of interest. Clearly also, no person of conscience and compassion would let the rights and needs and conveniences of men and women take precedence over the comfort and safety of a colony of fish, be they big or little. After all, the fish were here first!

Certain relevant observations may be made here. First, the Snail Darters are entitled to life, liberty and the pursuit of piscatorial happiness. What right has Man, in his quest for safety, and in his relentless chase after things material, to interfere with the schedule of life which the Snail Darters have established as their own? Clearly, these little fish have a prior claim on the sympathies of all reasonable and compassionate creatures.

However, one's indignation begins to lose pressure at this point, when one reflects that the same observa-

tion might be made with respect to another species. This one, indeed, is much better known than the Snail Darter was until recently. I mean those fascinating little invertebrates called *Lumbricus Terrestris*—namely, the Earth Worms. They too have been cruelly and shamefully treated. What right has a member of the human species to dig them up from their cozy moist burrows, impale them upon cruelly barbed hooks, and utilize their squirming death agonies for another ignoble and barbarous purpose—namely, to lure innocent fish to the fatal indignity of the torturing hook, and the slow suffocation of the waterless creel?

### Questions of Propriety

It might also be noted that the Earthworms have another timely claim just now on our sympathy and understanding. You see, being hermaphrodites, they do not follow the normal patterns of sexuality—a life-conditioning that should win them great sympathy among those people who are now so militant about the “rights” of sex deviates. But that, after all, is an aside.

Apart from questions of moral and social propriety, there is also the question of what business the federal government has meddling in such matters in the first place—whether in the life pattern of worms and snail darters, or in the damming



and artificial distribution of water. But I suppose only a human troglodyte, attached mentally to the Dark Ages, would raise such a point.

However, a nice incidental question might be injected, namely, what of the waters themselves? They are things of nature, wild and free, cascading from mountain heights to lower levels, and finding haven at last in the mothering bosoms of the Oceans. In the matter of freedom, let's be logical. What right does a government have to say to one sparkling stream, Go yonder in freedom, and to another, Stay here in sluggish damnation?

Fortunately, such questions occur less frequently these days than they might otherwise have done except for what was surely an act of preventive Providence. And that brings us to those Mayflower Ecologists, a small group of heroic souls that have been, alas, unknown and neglected.

Much has been made, of course, of the freedom-loving independence of the Mayflower passengers as a whole—how brave they were, and adventurous; how willing they were to work and starve and sacrifice in the name and for the sake of freedom. And this is altogether fitting and proper. It is especially gratify-



ing, I may add, to those who can discover a patronym and possibly an ancestor among them. All glory to their memory!

But among them was the small group of seers that has been denied the credit and recognition it deserves. Indeed, their names are not even mentioned in the history books, which goes to show the ingratitude we often display toward our true benefactors, and our callous insensitivity to what they have done for us.

### **What Might Have Been**

But the Snail Darter Case has helped correct this long-standing injustice. Sensitive souls realize at last how fortunate it is for us that among those Mayflower adventurers there was a small but militant and fearless group of ecologists and environmentalists. Their names will never be known, but without their influence, and that of their spiritual descendants, dire things might have happened to our country.

Take that headstrong Governor Clinton, for example, who proposed to dig a canal across New York State, from the Hudson River to Lake Erie. He had visions of long strings of barges, bearing freight and even passengers, and encouraging commerce and industry, not only in the Mohawk Valley but along the Lake shores. He had the quaint notion that it would, as the booster's

phrase went, "open up the West." What nonsense! It would only have frightened the deer and disturbed wild life generally. Fortunately the project was killed in time, thanks to a devoted and fearless band of environmentalists who saw through the crass commercialism of the whole plan.

Then there was the crazy Welland scheme for a canal around, of all things, Niagara Falls. The theory was that freight could be carried by low-cost water transport, through locks around the Falls, without disturbing their beauty, and to the great benefit of economic and social development. There was more promotional nonsense of similar kind. Fortunately it was killed in time and the Falls were saved.

But of course society still had to deal with those silly people up at what was known as the Soo, with their zany idea of connecting Lakes Huron and Superior for ship travel, with alleged economic benefits to the Minnesota, Michigan and Wisconsin northwest areas, and indirectly to the whole national economy. That scheme, too, got nipped in the bud—an environmental and ecological triumph that was no doubt greeted with enthusiasm by the otters, and which probably prevented great by-pass inconvenience to the migratory Canadian geese.

Worst of all, perhaps, there was that fantastic scheme to connect the

two great oceans by means of a canal across the Panamanian isthmus. How fortunate that the far-sighted ecologists were able to stop that one! Otherwise, there's no telling what might have happened. Such a vast ditch might have lowered the water tables of both continents, with disastrous effects upon the health and happiness of both muskrats and frogs. The toads might not have minded, being amphibians; but sheer disaster might have struck at

sea, where the outflow of Pacific water might have altered the mating habits of the giant Galapagos turtles. This would have been tragic indeed.

So thank heaven for the Snail Darter Case, which served to bring these and some other matters into better perspective.

And thank heaven also for those unknown Mayflower ecologists and their sociological heirs! ☉

### Full Use of Potentialities

If the goal of mankind is to realize the potentialities of the species to the fullest, it becomes necessary to insure to all men the fullest possible personal freedom. Confining freedom of action to a few, in the totalitarian way, is simply unintelligent—not to mention its immorality; for such a limitation arbitrarily confines the quantity and quality of service to society which might otherwise be forthcoming.

John Stuart Mill put the case for personal freedom—and for the free enterprise system—in its ultimate form when he said: "The only constant and unfailing source of progress is liberty, for by it there are as many centers of improvement as there are individuals." Compulsion may force men to produce as much as their masters insist upon. I say "may," for it is doubtful that unfree men or slaves ever produce as much as their masters wish, even under the lash. But what is not doubtful at all is this: compulsion will not make men produce more and better things than the master themselves wish.

The theoretical maximum of production in an unfree society, therefore, is limited by the imagination of the few who are in control.

SYLVESTER PETRO, "Freedom and the Nature of Man"

IDEAS ON



LIBERTY

Sharon B. Mulwitz

# Do You Believe in Freedom?

Do you believe in freedom? That question should be easy to answer. But it is a commitment that deserves some thought.

One aspect of freedom is the right of an individual to make choices—how he wants to live, spend his money, and the like. An integral part of this right of choice is the privilege and responsibility of accepting the results of that choice, taking the bad along with the good if we would retain the right to make decisions.

By using government aid as an “easy out” for problems that confront us, we encourage government to tax us to pay for its “helping hand.” The government operates on

our tax monies. What appears to be free is only an illusion. It comes immediately, or will eventually come, from your pocket and your neighbor’s pocket. When you accept government’s helping hand, you lose your freedom of choice as to the use of scarce and valuable resources. Money that you could have spent as you wished will become tax money over which you have no control.

When we accept government aid, we give up our decision-making power in another way. Government does not extend its “helping hand” without making certain regulations. As we become more and more dependent on this aid, we subject ourselves to more and more regulations. We can look around and see the results of this in our everyday lives. Note, for instance, the great number of state and federal regulations

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Mrs. Mulwitz, a housewife in Paris, Tennessee, here shares some of the ideas on liberty gleaned as a participant in a recent weekend seminar conducted by the Foundation for Economic Education.

applicable in such heavily subsidized areas as schooling, housing, transportation, health care, and the like.

Another aspect of freedom is the right of each person to live his life as he sees fit. Most of us feel that we should be allowed to live as we please. But how often do we consider our neighbor's rights? All too often we defend our rights and work to pass laws that take away the rights of others. Our neighbor's lifestyle may be contrary to our own; but if we are to maintain a free society we must tolerate our differences. Too often we are tempted to stamp out any beliefs contrary to our own. Be-

ware. Let us remember that others may be just as anxious to stamp out our beliefs. The only way to preserve freedom is to defend each person's right to his way of life.

Do you believe in freedom? Do you believe in freedom enough to make your own choices and take the responsibility for your deeds, and to allow your neighbor to do the same? Do you believe in freedom enough to defend a man's right to a lifestyle that you personally feel is wrong? Those who truly understand the dimensions of freedom will realize that none of us can be free if we do not allow our neighbor his freedom. ☉

### A Mutual Concept

FREEDOM is destroyed between two persons to whatever extent either one uses violence or the threat of violence to impose his will or viewpoint upon the other. Regardless of who is the aggressor and who is the victim—or whether the violence is legal or illegal—freedom is still infringed.

If you have rendered me helpless by throwing me to the ground and sitting on top of me, everyone understands clearly that my freedom has been severely curtailed. But what is not generally understood is that your freedom is also curtailed as long as you must spend your time and effort to hold me down. You thereby restrict your own progress and improvement just as you do mine.

Freedom is a *reciprocal* relationship based on *voluntary* agreements and actions. This applies in all human relationships, even though they are seldom as clear and dramatic as person-to-person violence. The only real possibility for complete freedom for yourself as an individual is for you to refrain from initiating violence or the threat of violence against anyone else. This is the vital first step toward a condition of mutual nonmolestation—a step that any one of us can take as soon as he is ready.

DEAN RUSSELL, "My Freedom Depends on Yours"

IDEAS ON



LIBERTY



# World in the Grip of an Idea

Clarence B. Carson

## 23. The Cold War: Revolutionary vs. Evolutionary Socialism

THE UNITED STATES emerged from World War II as the pre-eminent military power in the world. That pre-eminence was symbolized by the development of the atomic bomb, two of which were dropped on Japanese cities inducing that country to surrender. The great world powers of the inter-war years had either been crushed or were very nearly impotent. Germany had been as absolutely defeated as possible. About all that remained to make the

devastation complete would have been to sow the bombed-out cities with salt. Japan saved a shred of honor by being permitted to keep its emperor. The weakness of France had been decisively demonstrated by the Nazi conquest. Only the swaggering and boasting of Mussolini had made Italy appear to be a great power. Britain emerged victorious in the war but was shortly reduced to minor power potential by the nationalizing zeal of the Labour Party, China faced, as it had, incipient civil war and was hardly in position to play the role of a major power.

The Soviet Union, too, emerged

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

victorious in World War II. How that empire would rank as a military power is still a controverted question. The devastation wrought by the German armed forces on that country had been great. Stalin had so disrupted agriculture with his efforts at collectivization that production was far from adequate for the population. Forced industrialization had succeeded only in getting produced what the political powers considered most urgent. But the Soviet Union had something beyond ordinary military powers; its leaders had the will and know-how to use terror. Terror was used both in the subjection of the peoples of Eastern Europe and probably more extensively than ever the peoples within the Soviet Union. The combination of military power, terror, and deception made the Soviet Union a major power in effect.

At any rate, most of the powers that had been were no longer major powers. Western Europe was largely a power vacuum, as was the Far East. This had repercussions in many other parts of the world, for the former great powers had carved much of the rest of the world into spheres of interest and colonies. Many of these colonies broke away or were turned loose to fend for themselves. The British Empire hardly deserved the name any longer after a few years of Labour rule.

The United Nations was supposed to fill this power vacuum, or at least, to stand guard while old nations recovered and new nations took shape and emerged. It did not work out that way. Such authority as the United Nations had was vested in the Security Council. The permanent members had a veto power over any action, and the Soviet Union began quickly using this power to forestall unwanted action. This was especially disruptive because, as it turned out, the major threat to the peace was the Soviet Union and the international communist movement it spawned. Wherever they could, Soviet leaders fomented civil war to advance Communist Party takeovers anywhere the opportunity occurred.

### **Some Moments of Doubt**

The world was not as clearly in the grip of an idea at the end of World War II as it has since become. The defeat of Nazism and Fascism discredited those particular varieties of revolutionary socialism. West Germany and Japan were not only freed from the control of totalitarian regimes but also given great impetus by the occupying forces to adopt institutions more in accord with freedom. It is true that the United Kingdom went headlong toward socialism for a few years after the war and that India's leaders were under the spell of socialism,

but the course of many countries was unusually uncertain. The United States bent away somewhat from the collectivist path of the 1930s—not for long, no doubt, but enough to illustrate the possibilities.

Television had not yet taken hold as the shaper, molder, and decider of opinions. The sway of the intellectuals was still largely dependent upon the influence they could wield upon politicians. College education had not become so common a possession, and it is perhaps the single most important way that intellectuals fasten their ideas upon people. Intellectuals were still marginal in many lands, and the lines between ideologies rather more clearly drawn than in a later day. Many people still lived mainly by custom, tradition, and within the framework of family and religion, a much larger percentage, at any rate, than would so live thirty years later. It is difficult to grasp how drastic the changes have been, facilitated by technology and guided increasingly by ideologies.

It will be helpful to keep this in mind as we explore the impact of the Cold War. There was a time, at least for Americans, when the Cold War appeared to be simple enough and readily understood. The world was divided in two, or so we were told. One world was communist, and the other was free. The two worlds were

engaged in an ongoing conflict which was not out-and-out war, but was not peaceful either. (The conflict was also often described as between communism and democracy.) The United Nations became the verbal battleground of this conflict, and nations were aligned there with one side or the other. Bench marks in the conflict were such events as Churchill's "Iron Curtain Speech" at Fulton, Missouri, military aid to Greece and Turkey, the revelations of Soviet atomic spies, the fall of China to the Communists, the North Atlantic Treaty Organization, and the Korean War, among others.

### **The Cold War Reinterpreted**

What was once clear and distinct, however, has since become fuzzy and indistinct. What was called a Third World emerged in the late 1950s and in the 1960s, aligned with neither side. The Soviet Union and Communist China became embroiled in their own ideological conflict. Revisionist historians began to reinterpret the Cold War. The more radical of these declared that the conflict was all a product of American hysteria, that communism had not so much fomented it as been victimized by it. Communism, in this view, was a bugaboo invented by Americans so far as its aggressiveness and threat to world peace was concerned.

While such revisionist history is

sorely out of touch with reality, it may at least open the way to revision that is needed. The nature of the conflict has indeed been misconstrued, perhaps not so much as it was originally represented to be but as it turned out. The tyrannical character of communism has rarely, if ever, been exaggerated. Nor would it be easy to overstate the imperial aims of Soviet Communism. An international conspiracy has existed as long as the Soviet Union, and there are several of them now. That this movement has engaged in subversion, espionage, and terrorism is well-established fact. Whether it has posed an immediate threat to the United States, or what the nature of the threat was and is, may be open to debate, although there is no conclusive answer available.

Most of the misconstruction of the Cold War, however, has been over the nature, character, and tendency of the opposition. That the opposition has been between communism, on the one hand, and freedom, on the other, is certainly doubtful. This is not to question that there are many who are opposed to communism or that there are those who stand for freedom. It is rather to question that they have generally been in control of or directed the actual conflict. The actual events of the Cold War come into much clearer focus when we conceive of it as a conflict between revolutionary and evolutionary

socialism. This takes into account the actual tendencies in the so-called Free World as well as the thrust of developments within the Cold War.

### **Varied Opposition to Communism**

There are undoubtedly many angles from which communism may be opposed. Indeed, they may be as numerous as have been the abuses of power and atrocities of communist rulers. Some have opposed communism because the rulers do not permit freedom of speech and of the press and suppress dissenters. Others, because there is no freedom of religion but rather religious persecution. Some find it objectionable that there is no freedom of migration, and they are apt to see the Berlin Wall as the symbol of what they oppose. The slave labor camps have been more than many people can stomach. There are even those who find most deplorable the prohibition of jazz and experimentation with the arts in general. The ubiquitous bureaucracy has its articulate opponents. There are those who focus mainly on the economic wrongs of communism: the confiscation of private property, the state planning, and the absence of the free market.

But all opposition to communism that amounts to anything can be reduced to two headings. One is what will here be called Metaphysi-



cal Opposition to Communism, and the other Tactical Opposition to Communism. These can be employed in such a way as to subsume virtually every level and kind of opposition.

### **Metaphysical Opposition**

The use of the term "metaphysical" may appear to be a poor choice of words. It is certainly the case that in the last century or so many have used the term as if it were synonymous with mystical, superstitious, something vague and imaginary, or evanescent. These are, however, misuses of a most valuable word for which there is no ready replacement. Metaphysics is the study of and refers to that underlying order in the universe which gives form and regularity to things and relationships. It is the source of natural law and normality in beings. If it is mystical it is so only in the sense that our sensual knowledge of this realm is indirect. Metaphysics is actually the foundation of precise knowledge. Without it, we are left only with a poor substitute—statistics—whose precision is achieved only by distortion.

It may be objected, however, either that my phrase does not take into account religious opposition to communism or that what I am really referring to when I call it metaphysical is religious. An explanation of the meaning of Metaphysical Oppo-

sition to Communism should make it clear that neither of these objections is valid. I mean that the opposition to communism is based upon fixed and immovable positions, on the belief that communism cannot and will not work, that it can only be tyrannical and destructive. Why? Because it requires the transformation of human nature, something that is fixed and immutable. Because it requires the abridgement of the natural order of things, something that has not occurred and so far as we know cannot and will not occur. Because it requires that individuals no longer pursue their self-interest, that they abandon what is essential to their survival. In brief, these things constitute the metaphysical opposition to communism.

### **More Philosophic than Religious**

It should be clear that this is not a religious opposition to communism. It is a philosophic or, mayhap, scientific opposition. True, there is religious opposition to communism, and for good and sufficient reason. Communism is atheistic and committed to wiping out all independent theism. But when the religious opposition is examined carefully it will be discovered that so far as it is a fixed and immovable position it is based on a metaphysics-like position, namely, that God is the same yesterday, today, and tomorrow,

that He has implanted in us our immutable human nature, and that He has ordained an order for things and for men. Take away the conception of God as Creator and man as Creature, with all that is implicit in this, and the religious opposition to communism tends to melt away. In short, the firmness of the religious opposition to communism has a metaphysic-like base. For any who might have difficulty accepting the above formulation, let me put the matter another way: Metaphysics provides sufficient ground for an unaltering opposition to communism.

It still may be objected, however, that there are those who are apparently immovably opposed to communism who know naught of metaphysics. This is an objection, fortunately, which involves only semantics. For example, there are those who oppose communism on the grounds that it is contrary to human nature. This position, and others like it (the economic arguments, for instance), are metaphysically founded, whether those who use them are aware of it or not. Ignorance of philosophic terminology does not alter in the least the philosophic base of a position.

Even so, it may be useful to broaden somewhat those that might be included among the metaphysical opponents of communism. There is a sense in which all who are inaltera-

bly committed to an opposition to communism—as, for example, those who would maintain that if it would work they still would not want it, for whatever reasons—are metaphysical opponents. It is permissible to use the word in this way, for by so doing we embrace all metaphysic-like positions, i.e., all that are firm, hard, rock-like, and underlyingly immovable.

### **Tactical Opposition**

Tactical Opposition to Communism is of a quite different order. It is opposition to communism on the ground that one or more or many of its tactics or methods are wrong. (Those who oppose it on metaphysical grounds might be expected to find the tactics objectionable also, and they usually do. They may even make arguments against communism in terms of methods, but that is not the final ground of their opposition.) The position amounts to this: If communists would “clean up their act,” they would be acceptable. If they would grant free speech, not persecute religion, provide due process of law, permit migration, allow opposing political parties, abolish slave labor camps, and so on, they would no longer be objectionable.

When they oppose communism, evolutionary or gradualist or democratic socialists are by the necessity of their position tactical opponents. Twentieth century liberals (who

vary in the extent to which they are socialists) are also generally tactical opponents of communism when they oppose it. Communism-in-power has been a source of great embarrassment to other socialists. Indeed, it has been an embarrassment or much worse, to many communists as well. The violence, the terror, and the drastic action have raised doubts as to the validity of the socialist enterprise.

It is worthwhile to note that the most vociferous opposition of socialist intellectuals is class-like. They object most strenuously—indeed, many reserve their objections—to the persecution of intellectuals. Thus, Stalin's most heinous crime for many of them was the Purge of the late 1930s. Millions of peasants and Kulaks could be persecuted and die with never a whimper from Western intellectuals. But when a few thousand intellectuals came under the gun, many socialist intellectuals began to question Soviet Communism. The same play is still being enacted today, though the scene has changed. A few intellectual dissidents in the Soviet Union can bring the glare of publicity to bear on their persecutors, thanks to Western intellectuals, but the other persecution goes largely unnoticed.

However that may be, socialist opponents of communism have usually had to try to balance themselves

on a razor's edge. On the one hand, they have opposed communism. In its own way some of this opposition has been real enough. That is, evolutionary socialists do believe, often enough, that the revolutionary way is the wrong way, that drastic measures are harmful and unnecessary. Moreover, they may be as opposed to Soviet or Chinese or Cuban Communist expansion as anyone else. In fact, evolutionary socialists may go to war against communists, albeit reluctantly and limitedly.

But the anti-communism of gradualists must always be restrained. It must stop short of being or becoming Metaphysical Opposition to Communism. If it should become metaphysical in character it would be tantamount to a repudiation of socialism. Another way to say it is to formulate it this way: Opposition to communism must not trace communist practice to the socialist idea—to the idea that has the world in its grip. Deplorable communist practice must be ascribed to an excess of revolutionary zeal, to evil men, such as Stalin (once he had passed from the scene), to persecution of communists and inhibition of their legitimate aims by others. It has been a most difficult task for evolutionary socialists to oppose communism, one that has frequently been made necessary by the communists but unpalatable at best. If communism would just become

another political party, the difficulty would vanish, for evolutionary socialists could oppose it without any danger of the opposition becoming metaphysical. But that can only happen where communists have not come to power or have not consolidated their power.

### **The Opposition Performs a Double Reverse**

One way that evolutionary socialists (which generally includes liberals in the United States) maintain their balance on the razor's edge is to focus their efforts on opposing anti-communism. Technically, they oppose communism, but this position can be made largely harmless by rigorous attention to the methods by which communism is to be opposed. The method that is generally proscribed in the United States and Western Europe is what goes by the name of McCarthyism (which takes its name from the late Senator Joseph McCarthy of Wisconsin). One dictionary defines McCarthyism as "1. public accusation of disloyalty, esp. of pro-Communist activity, in many instances unsupported by proof or based on slight, doubtful or irrelevant evidence. 2. unfairness in investigative technique. 3. persistent search for and exposure of disloyalty . . ." Indeed, "McCarthyism" is the unpardonable sin in the American liberal ranking of evils. It ranks

alongside if not above "Red Scares" and "witch hunts" for communists.

Tactical Opposition to Communism turns into tactical opposition to anti-communism. The threat of communism is transmuted into the threat of anti-communism. This is an easy shift for evolutionary socialists to make, indeed, a shift difficult to avoid. The reason is that opposition to anti-communism has a metaphysical base or, if anyone prefers, an anti-metaphysical base. All socialism is premised on the possibility of transforming human nature. Metaphysics is the level at which this is found to be impossible. Hence, revolutionary and evolutionary socialists are at one at the metaphysical, or anti-metaphysical, level. They are irreconcilably opposed to metaphysical anti-communism.

I do not deduce this from the phenomenon of "McCarthyism," of course. It is deduced, so far as it is deduced, from the philosophical, or ideological, premises of socialism. But there is a great body of evidence which is explained by and supports this conclusion. When "McCarthyism" or a "Red Scare" is underway these occupy the center stage of tactical opposition. But once they have abated, then virtually any tactic by which communism might be opposed comes under fire. In the final analysis, all metaphysical or "hard core" opposition to com-

munism is intolerable to socialists, though tactical opposition is permitted except by "hard core" communists.

### **Differences Not Understood**

The depth of this division has not been generally admitted, if it has been understood. There are many practical reasons for not dramatizing or for not recognizing it. Evolutionary socialists cling to or at least profess many of the common values which derive from Western Civilization, such as representative government (which they tend to telescope into democracy), religious toleration, free speech and press, free elections, and so on. By their very evolutionary method they attempt to avoid arousing a metaphysical opposition to themselves. Anti-communists, too, have hoped to enlist them in a common cause against communism. Some anti-communists have portrayed social reformers and liberals as dupes of communists, as taken in by them. (Indeed, this was the general view of the matter as held by anti-communists in the 1950s.) They may have been, indeed may be, but if the above analysis is correct the affinity between them is not something skin deep as such a construction implied.

In any case, it is what has happened when common cause against communism has been made by metaphysical opponents and tactical

opponents. The contest has been called the Cold War. The main contest has been between the United States and its allies on the one hand and the Soviet Union and its allies and satellites on the other. Communist China was formally excluded from the Cold War most of the time but was nonetheless a subordinate part of it. The contest was carried on in many ways—by diplomacy, by propaganda, by subversion and espionage, and in actual wars—but the examination of it here will be restricted to three levels: war, foreign aid, and espionage.

### **No Chance for Alliance**

If the preceding analysis is correct, it is unlikely that evolutionary socialists and metaphysical anti-communists could make common cause against communism. They cannot effectively wage war, either hot or cold, against communism. They cannot, that is, if evolutionary socialists are to maintain their balance on the razor's edge. To wage war effectively the enemy must be clearly identified, support for the war must be mustered, and force brought to bear sufficient to overcome the enemy. It is not possible to do this from a razor's edge; it requires a broad base rather than a tenuous position.

It may well be that the animus behind the Cold War came from

metaphysical anti-communism. The provocation came from the communists, of course. But the Cold War strategy was largely shaped by Democratic Presidents. Between 1933 and 1969 there was only one Republican President—Eisenhower. Nixon worked vigorously to defuse the Cold War, so he was not an architect of it, not as President anyway. The main outlines of the Cold War were shaped by President Truman. Eisenhower and Dulles continued it, as did Kennedy and Johnson.

It is significant in the context that Democrats were the main strategists. The Democratic Party has been by far the more deeply infected of the two major parties by evolutionary socialism. Liberal intellectuals have had their greatest influence within the Democratic Party, though they have exercised considerable influence on Republicans as well. The domestic programs of the Democrats since 1913 have been in the direction of centralizing power in the federal government, manipulating the money supply, regulating and controlling business, managing the economy and redistributing the wealth. True, they have only limitedly pushed for government ownership and have taken the route of control instead. But that has come increasingly to be the method of evolutionary socialism for the past several decades.

Democrats have tended to get the United States embroiled and entangled in international affairs in the twentieth century. Beyond that, they have tended to get us into wars. There is no particular mystery as to how this should be explained. Democrats have been enamored with the use of government power. Whatever they have been confronted with, they have inclined to the view that the solution lay in the exercise of political power. In international relations, this tends to lead to war or to involvement in whatever conflicts are taking place.

### **Hot Spots in the Cold War**

Twice during the Cold War, the United States became extensively involved in an armed conflict: first in Korea and then in Vietnam. President Truman gave the order which brought Americans into combat in Korea. President Kennedy got the United States armed forces increasingly embroiled in Vietnam, and President Johnson made the war primarily an American responsibility.

The main point here is the kind of wars these became, not whether American involvement was justified or who was to blame for them. In both cases, they were what came to be called limited wars. Under General Douglas MacArthur's command, American forces, along with such allies as they had, mainly

South Koreans, were close to over-running and defeating the North Korean army. At that juncture the Communist Chinese intervened with massive ground forces. MacArthur proposed the bombings of the Chinese access, but he was refused permission to do so. When he persisted by criticizing the policy behind the scenes, he was relieved of his command. The war zone was restricted to Korea, and the war was eventually ended without a decision having been reached.

In Vietnam, no American military commander attempted to win the war by invading North Vietnam. Even the bombing of North Vietnam was restricted, and major ports were not shelled by sea. The justification of the conflict, where any was given, was so narrow and subtle, with infinite attention given to subtle niceties, that Americans were confused and baffled by the whole affair.

After MacArthur's dismissal, no grand strategy was devised to achieve victory at arms. None was ever inaugurated in Vietnam. The justification offered was that the war might be vastly expanded by any aggressive action. Actually, this might have been a sound argument for never becoming involved in the conflicts at all. After all, it was certainly possible to foresee that China might intervene in Korea. North Vietnamese intervention in South

Vietnam was a fact, and Chinese or Russian intervention a distinct possibility from the outset. What the enemy might do is hardly ever a foregone conclusion.

### Why a No-Win Policy?

The deliberate limitation of these wars needs a better explanation than those that were offered. The framework has been supplied for a better explanation. It is this. Evolutionary socialism must prevent, even at very high cost, the opposition to communism from becoming metaphysical. Any all-out war—any war to be fought through to victory—will become metaphysical-like because of the ideological character of the conflict. Once the general opposition to communism becomes metaphysical, all of socialism is likely to be indicted. Undoubtedly, the motives that inhibited American leaders were complex. What persuaded any one of them to the limited war concept cannot, of course, be known. But that an extensive apology for limited warfare was prepared and disseminated by American intellectuals, aided and abetted by their counterparts in other lands, cannot be doubted. That these same intellectuals have bent their energies over the years to forestall the arising of an articulate metaphysical anti-communism can be demonstrated *ad nauseam*.

Intellectuals have worked diligently over the years to turn the Cold War into an internecine conflict between revolutionary and evolutionary socialism. A concerted effort was made to do that in Vietnam. They kept up a continual clamor over the alleged undemocratic character of the government of South Vietnam. Similar, though not as vociferous, charges were leveled at the South Korean government. That many South Vietnamese continued to pursue their individual self-interest economically was considered shameful by these intellectuals. Efforts were made to turn the American army into a combination of Red Cross and Little Sisters of the Poor. They were set to the task of rebuilding Vietnamese villages, tending the sick, and feeding the hungry. Only if evolutionary socialism (usually described as democracy) could demonstrate its superiority to the claims of communism (revolutionary socialism) would the American involvement be justified, presumably.

### **A Smoke-Screen for Communism**

My purpose in discussing these matters is to describe the role that the Cold War has played in spreading the idea and fastening its grip upon the world. The initiative belongs to international communism. Communist lands are generally closed to foreigners except on a lim-

ited and supervised basis. Massive efforts have been made over the years to shield the rest of the world from the reality of communism. In effect, the attempt has been made to have communism known only as an ideal system. This ideal is spread around the world by whatever propaganda outlets communist powers have. The reality in other lands is measured against the communist ideal, to its detriment, as a rule.

Evolutionary socialists tend to take these criticisms seriously as, in a sense, they must. They are, after all, of a competing brand of socialism and must constantly demonstrate the superiority of their way. Hence, communist pressure is turned into a necessity for pushing socialist measures by the other camp. In short, anti-communism becomes pro-socialism at the hands of evolutionary socialists.

This was nowhere better illustrated than in the foreign aid programs. When the foreign aid programs got under way under President Truman they were billed as an effort to stop or contain Soviet expansion. As such, military aid had top priority. Very soon, other kinds of aid became increasingly important. It became, in the course of time, a major international device for propping up socialist regimes in many lands. Actually, the above chronology is not quite correct. Some foreign aid programs propped



up floundering socialist regimes from the beginning. In England, the Labour Government was in deep trouble by 1947, within two years of its installation, and was appealing, with success, to Washington for aid. The European Recovery Program was from the outset a venture in promoting collective efforts among nations. But foreign aid must be given closer examination later on.

### The Points Summarized

The points here are rather general ones. They are:

1. That the Cold War, whatever its origins, was turned into a contest between evolutionary and revolutionary socialism.

2. The conflict between these two varieties of socialism is over means not ends.

3. To prevent their common end from becoming apparent, as well as the probability that they would not ultimately differ much from one another, the whole attention must be focused upon methods.

4. The common cause between Metaphysical Opponents of Communism and Tactical Opponents could not and did not survive the trial by fire. Truman's conduct of the Korean War disenchanting those who deeply opposed communism. Foreign aid was subjected to wither-

ing criticism over the years by both sides. American intelligence and security agencies have now been subjected to such exposure and curtailment that it is doubtful they can perform any function successfully.

5. In the conflict between evolutionary and revolutionary socialism, evolutionary socialists advance their own variety of socialism.

6. Communists are thus enabled by their criticism to push toward more and more socialist policies in the world. In brief, the Cold War provided the occasion for the spreading of socialist ideas, even though it was supposed to contain communism.

This is the general framework from which the Cold War is to be viewed. It serves as a transition, too, from the more detailed examination of the application of the idea in a few countries to its general spread to countries around the world. It has been spread both by international communism and from country to country as socialism, liberalism, the welfare state, social democracy, or whatever. First, we will deal with the spread of communism. ④

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Next: 24. *The Cold War: The Spread of Communism.*

Timothy Eshleman



## LABOR IN A FREE SOCIETY

LIFE is full of desires and wants. From birth until death one strives to satisfy many needs and desires. Labor is the process by which a worker obtains the goods and services needed for survival and desired for enjoyment.

In a free society, an individual is free to labor as he wishes. The essence of the free society is to "leave everybody totally free to act creatively as he pleases, to let anyone and everyone exchange their goods and services with whomever they choose on whatever terms can be mutually agreed upon, to let the fruits of one's labor be one's own, and to limit government—society's agent of force—to the protection of

everyone equally in these freedoms."<sup>1</sup>

As a worker is free to labor according to his talents and wishes, his interests and those of others are advanced. Who in society—the individual or the state—can better determine what is in the best interest of a worker? Naturally, each individual alone can determine what his best interests are and should be free to act accordingly.

A worker, free from restraints against his productive energies, may develop new skills. One person's ability may make possible for him accomplishments not equally attainable by others. Each person may develop an area of expertise or specialization for which he is best suited.

The division of labor, resulting from expertise and specialization,

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requires cooperation and joint effort on many tasks. The cooperative action of those with varying proficiencies is more efficient and productive than the isolated action of self-sufficient individuals. Just as a myriad of tasks to be performed exists, there are workers with varying skills to perform them.

Furthermore, the division of labor makes possible technological improvement. As the division of labor becomes more advanced, observant and inventive men notice that certain identical, repetitive tasks may be performed by precision machines. Such machines allow these tasks to be completed more effectively and efficiently.

Everyone, in an unhampered market economy, is free to accept the best opportunity available. One seeking work may choose the job which provides the best return for the services he offers. A prospective employer may choose those workers who offer the best services for the wages he has to pay.

What a worker receives for his labor will be determined by what others are willing to exchange for it. Competition among workers ensures that no one is paid too much, while competition among employers makes sure that no one is paid too little.

Exploitation of one individual by another, in a free system, is impossible. No person or group could

monopolize any activity so long as there is freedom for all to enter the market. Where there is free entry there is competition and this competition, among both those who demand labor and those who supply labor, would make exploitation impossible.

However, should an individual or group be granted legal monopolistic powers in the labor market, coercion and exploitation would then be possible. If the suppliers of labor—the workers—are granted monopolistic power, i.e., through labor unions, they would be in a position to command benefits greater than those they would receive in free exchange. If the demanders of labor—employers—obtain monopolistic power then the workers could be exploited.

In a free society, involuntary unemployment is inconceivable. There is always more work to be done than workers are able to do. Full employment occurs when an employer is able to exchange the wage he has available to pay for the services offered by a worker. The terms must be mutually beneficial or no deal will be made. If no deal is made, unemployment will result; but this is voluntary unemployment in that one party has chosen not to accept the other's offer.

However, when the market is not permitted to function freely, unemployment must result. "Unemployment is a phenomenon of the

partially rigged market."<sup>2</sup> As governments and unions interfere with the market, artificially raising the cost of labor higher than the price normally set by the market, i.e., higher than employers are able to pay, fewer workers will be hired, even though their services are still needed.

Even when technological advance makes possible increased production with less labor, workers will not be left idle. While initially displacing some workers, technology reduces the cost of goods. With their increased spending power, resulting from lower costs, consumers may demand other commodities which, previously, they had been unable to afford. The displaced workers, after readjustment, may find employment in the production of goods the demand for which has now expanded. The free economy provides work for all who want to work while provid-

ing a greater supply of goods and services.

But for this to occur, labor mobility is needed. If pressure groups or the state restricts workers' freedom of entry into labor markets, unemployment must again result. The workers displaced by technology are prohibited from entering new areas of work.

For the free society to endure, all individuals must be free to labor as they choose. All must be at liberty to creatively explore and perfect their abilities. Only as men are permitted to labor freely may they realize their greatest potentialities. ☉

### —FOOTNOTES—

<sup>1</sup>Leonard E. Read, *Let Freedom Reign* (Irvington-on-Hudson: The Foundation for Economic Education, Inc., 1969), p. 46.

<sup>2</sup>Leonard E. Read, *Government—An Ideal Concept* (Irvington-on-Hudson: The Foundation for Economic Education, Inc. 1954), p. 78.

### Jobs for All

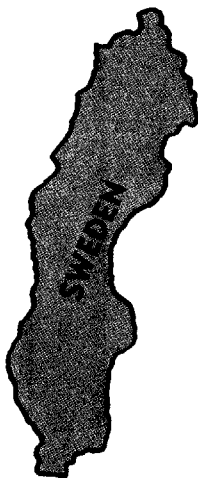
IDEAS ON



LIBERTY

By forcing some wages above free market rates, some unions now get higher wages for their members than such workers would receive in a free society. But these forced higher wages for some mean that others must accept lower wages or unemployment (unless the government resorts to inflation). These lower wages and unemployment (as well as this pressure for inflation) would disappear if every man, including the unemployed, were free to compete for every job. As long as some of men's wants remain unsatisfied, there will be enough jobs to go around.

PERCY L. GREAVES, JR.



# The Rise and Decline of a Welfare State

THE economic trials of recent years, according to a growing number of competent commentators, have nothing to do either with business cycles or structural long range changes. The sickness of the seventies is much more severe and goes to the roots of our industrial civilization—the market economy. In many western countries markets presently are in ruin.

All of us apprehend that the unprecedented wealth and living standard we enjoy is a product of the industrial system. But not so many are aware that the prime mover of this system in the western world has been the market economy in an air of freedom—a system now threat-

ened by suffocation for lack of freedom.

As a matter of fact, we are living on fortunes inherited from the past, consuming a heritage created and built by free enterprise and free entrepreneurs. Unless we fundamentally change the economic policies that have brought us into the present situation, we cannot hope for relief.

## The Road to the Welfare State

Since the 1930s—see the famous book *Sweden the Middle Way* by Marquis Childs in 1936—Sweden has been the leading country on the road to the welfare state. It is a road sloping downhill, and once the wagon had started, you could not prevent it from rolling on faster and

faster. In Sweden, government successively has taken over more and more of the responsibilities for the citizens' life and welfare from the cradle to the grave. And welfare is like a drug—greater and greater doses are needed. The pressure for greater doses has been so strong that no government so far has been able to resist.

But welfare is expensive and has to be paid for. So taxes had to be raised all the time. In 1960 taxes in Sweden took 30 percent of GNP, a share that in 1977 had increased to 53 percent.

Generous minimum standards of living, guaranteed to the citizens by the State, mean that a great many Swedes in the lower income brackets enjoy the same standard whether they earn a living or not. As a matter of fact, most Swedes are getting social allowances of different kinds, tested according to needs. Such allowances combined with the highest tax rates of the world mean that, after an income rise, you will be hit not only by extremely high marginal tax rates but by losses of social benefits, too. Most Swedes are virtually allowed to dispose of no more than 5 to 10 percent of an income rise, which means that incentives for working overtime or working hard to get promoted are very weak.

Sweden, as a matter of fact, is halfway socialized. But as all political parties have backed the "nation-

alizations," they never use the word "socialize." Very important sectors such as education and medical care are nearly totally socialized, as is the postal service, telegraph, railway and air communications and public utilities in local communities.

The Swedish State Church means that a major part of religious service is socialized with the staff wholly integrated into the ordinary bureaucracy. The buildings are imposing but attendance extremely low.

### **Sweden Hard Hit**

A few years ago only 5 percent of manufacturing industry was "nationalized," but because of the crisis and threatening bankruptcies a lot of big enterprises—shipyards, steel mills and textile factories—have been socialized in late years. The present share may be about 10 percent.

But this low figure is highly deceptive. Actually, there is no free enterprise in Sweden at present. And as for private enterprise, its freedom area is so restricted by governmental regulations that in practice it is half socialized. Liberties and incentives for private entrepreneurs are in short supply.

Sweden by wide margin holds the position as the number one welfare state of the world. And among all developed industrial countries it was most severely struck by the

present economic crisis. This is not mere coincidence, as we shall see.

Since 1974 production in manufacturing industry has been declining. Housing construction since 1970 has been halved, while cement consumption in the same period shrank 40 percent. The 550 biggest Swedish companies reported average profits declining from 8 percent in 1974, 5 percent in 1975, 2 percent in 1976 to 0 in 1977. And in a country with 30 percent of the labor force in public sectors (where GNP is calculated from expenditures, not from revenues) GNP in 1977 fell 2.5 percent. And while 7 percent of the merchant marines of the world in 1977 were idle, the Swedish figure was 27 percent idle. If Swedish production figures since 1974 have been extremely low, inflation figures, on the contrary, have been extremely high (1977 = 14%).

If Sweden was most severely struck by the economic crisis, other countries did not escape their fate, either. Many people were puzzled by the simultaneous emergence of troubles in different countries, but this widespread occurrence is of central significance for the analysis.

According to most competent judges the trials of the seventies are effects—primary and secondary—from governmental policies. And as similar and simultaneous causes will produce similar and simultaneous effects, the simultaneous

emergence of troubles in different countries may, most easily, be explained as effects of similar governmental policies. As a matter of fact, the same thing was true in the depression years of the 1930s. And there certainly are conspicuous similarities in economic policies of different countries in the same periods, rather independent of the political color of the governments. Imitation and fashion behavior are to be found not only in garments but in policies, too.

Free enterprise is a system strong enough to endure certain amounts of bad treatment—State restrictions and regulations. But there are boundaries you cannot cross without severe consequences. In the 1970s many industrial countries have, obviously, passed beyond these limits, with adverse repercussions. And Sweden as the most advanced explorer of welfare territories, also suffered the worst repercussions.

### **Creative Powers of Entrepreneurs**

In the economic world everything is started and kept going by individuals. And as machines are kept going by fuels, human beings are kept going by incentives. The strength of the incentives decides the performance.

In all business the entrepreneurs are key persons. Their skills and talents determine the success or the failure of the enterprise. And high

qualities as leaders of production and personnel do not suffice. More important are ideas and imagination, capabilities of developing new and better products and methods. Above all, an entrepreneur must be creative.

No outstanding creative work can be done without freedom. Therefore, all restrictions, all commandments and guidances, all fetters and chains, check and impede creations.

In all countries under political dictatorship the freedom of the creators is strictly limited, and not only in arts and literature. For that reason, extremely few real innovations have been born in the Soviet Union since 1917. Almost everything in science and technology has been imported and copied from the West.

Like all creators, entrepreneurs need freedom. If they are given freedom—in societies with law, order, and infrastructures—they will start and develop enterprises with miraculous growth potentials. Under such conditions of economic freedom in the era of the industrial revolution, a fantastic development started in England in the 18th century. There were the miracle periods of West Germany and Japan after World War II, and the two “golden” decades (1950-1970) in other western industrial countries after the postwar “disarmament” of central regulations. Also notable in recent

decades are such enclaves of economic freedom (not always political!) as South Korea, Taiwan, Hongkong and Singapore.

Periods of economic freedom—economic miracle periods—always were lucid intervals in history, periods of relatively short duration. Sooner or later a system of State regulations was built that checked and impeded development.

In the 1970s began a new era of uninhibited governmental intervention, restricting entrepreneurial freedom. And those in power could exploit all the potentials of Big Government armed with modern communications, electronics, and computers.

According to a Swedish study (by Professor Kurt Samuelsson in 1975) the number of new laws regulating industry and working life was greater during the 5 years from 1970 to 1975 than during the 85 years preceding 1970.

In 1973 Sweden got 80 new laws threatening entrepreneurs with jail or fines. In 1974 the number was 127 and in 1975 no less than 180. An interesting coincidence was observed in this context—as the production of new laws accelerated, production of commodities and employment decelerated proportionally.

This flood of economic regulations meant that the freedom of entrepreneurs was restricted more drasti-



cally than it had been since pre-industrial times. The entrepreneurs are treated by their new political masters not like free men, but more like slaves. Thus are more and more entrepreneurs so disheartened and discouraged that they lose fighting spirit, capitulate, and leave their positions prematurely.

### **Wage Earners and Consumers in Power**

Kings and emperors in power are seldom willing to accept the results of free markets. When universal suffrage transmits political power to the great majorities of wage earners and consumers, they also reject the market.

All citizens are consumers and hate price rises on food, housing, and the like. One cannot reasonably expect them to abstain from using the powerful State regulation apparatus at their disposal. The result is governmental price regulations—price controls, rent controls, currency controls, and so on.

Adult citizens are voters, too, most of them forming strong pressure groups, demanding social benefits and—in times of crises—extensive relief actions from government. And as few governments are able to resist such demands, State budgets are bound to be deficit budgets. The Swedish deficit in 1977 was no less than 20 percent of budget (almost 10 percent of GNP).

Big deficits mean big inflation, and the result in Sweden in 1977 was a price increase of 14 percent.

Most adult citizens want jobs. A job means not only income but social respectability, too. Especially in slowdown periods with few job opportunities, the bankruptcy of a firm often means severe hardships for the employees. In that case, employees of the firm (including representatives of their unions and their local governments) will form very strong pressure groups, desperately demanding relief actions. Very few governments are able to resist such demands for State subsidies. Often very large amounts are required.

In all market transactions two parties, seller and buyer, are involved. In free markets there is a power balance between the parties. Neither party is able to force upon the other conditions he is not willing to accept voluntarily. All transactions occur as the result of free bargaining. The central quality of a free market is the absence of coercion—non-violence.

But as soon as one of the parties in a market is able to use the powerful State apparatus (with laws, courts, prisons, policemen, soldiers, executioners) the balance of power is distorted. The party disposing of the apparatus is always able to force upon the other party conditions the latter would not accept voluntarily.

So it is that wage earners and

consumers, by means of price controls, rent controls, currency controls, extensive state subsidies and high taxes, are busy undermining the foundations of free markets. The prime movers of free markets, the entrepreneurs have been neutralized in strait jackets, woven from hundreds of governmental regulations.

### **The Penalties for Oppression Must Be Paid**

Those in power have fulfilled this "murder of the market" with good conscience, firmly convinced of the soundness and righteousness of their policy, as has always been the case of those in power.

But oppression and exploitation hurt not only the oppressed and exploited but the oppressors and exploiters as well. So one of the most fundamental ethical laws of history may be formulated: The penalties for such crimes have to be paid.

There was a time in history when entrepreneurs and "capitalists" used the State apparatus to oppress and exploit wage earners and consumers. Adam Smith and Karl Marx, among others, rightly criticized this exploitation. Now the power pendulum has swung from the one extreme to the other. But no matter who is the exploiter or the exploited, exploitation always works like a poison on the productive powers of a society.

In Sweden production has been falling since 1974. In spite of enormous borrowing from abroad (50 billion Swedish crowns 1975-1977) the living standard could not be prevented from falling in 1977, and it must continue to fall as long as this paralyzing policy is continued.

What about job security and the power of the wage earners, these "rights" extorted from entrepreneurs and guaranteed by State laws? The answer must be: These securities and powers are built on illusions. The more of these laws we have, the worse for the wage earners, because such exploitation of the entrepreneurs checks and impedes production. The result is a society with much unemployment and job opportunities in short supply. In such a society no government can guarantee living standards, real wages or employment.

The truth is that securities and powers of wage earners nowhere are greater than in a free market with high-speed production, full employment and labor in short supply. In the highly competitive labor market—the sellers' market—there are lots of chances and choices for the job seekers. In such a market the wage earners have the trumps. In such a market only the more efficient and generous employers can get the manpower they need. Other employers soon have no personnel—and no enterprises.

## Secondary Effects of State Subsidies

In slowdown periods with job opportunities in short supply, the bankruptcy of a firm most often means severe hardships for the employees. Because of the economic crisis, the Swedish Government in 1977 was pressed to pay more than 30 billion Swedish crowns to a number of threatened big companies, including 14 billion to the shipbuilding industry. At the same time the government acted to nationalize major parts of the shipbuilding and the steel industries and a minor part of the textile industry, on grounds that the relief sums were so enormous they could not reasonably be given to private concerns.

The shipyards were among the first plants severely hit by the crisis. Many of these plants obviously were superfluous and had to be closed. But which plants?

In a free enterprise system the market would have passed sentence. The high-cost plants would have been doomed, and so the survival of the fittest would have been guaranteed.

But the pressure from employees and communities was so desperate that governmental resources were mobilized, subsidies paid and the threatened plants saved. Soon all orders had been filled; yet production went on. Ships that nobody wanted or needed were built, ships

to be stockpiled at anchor in sheltered bays and fiords. Still, the competition for new orders grew more and more desperate. As Government paid the losses, prices far below costs were accepted.

The biggest Swedish shipyard, the Kockums in Malmö, from the beginning had a much stronger position than the big yards in Gothenburg—a result of good management—and therefore proudly refused the subsidies. But eventually they too were obliged to accept prices below costs to obtain new orders.

But no private enterprise can exist for more than short intervals under such circumstances; sooner or later it must capitulate. And so, in the last months of 1977, even the Kockums had to surrender and accept governmental relief.

Governmental subsidies start chain reactions, distorting the competitive balance and undermining even well-managed and sound enterprises. Subsidies, like drugs, remove pains for the moment but with severe secondary effects upon the body. In recent years, for instance, the Swedish Government has paid 30 percent of the prices of new ships built in Sweden. The Norwegian Government, however, refused to grant import licenses for those ships, as such subsidizing according to OECD rules meant dumping. Shipping companies buying new ships at prices far below costs—and

far below earlier price levels—of course were able to underbid companies that had bought their fleet in earlier periods. Because of such underbidding, freight rates in 1978 often cover no more than one third of total costs in old established companies. In Sweden the biggest shipping companies—the Broströms and the Saléns—as a consequence went bankrupt and had to be saved by Government.

As a matter of fact, lots of enterprises in Sweden—and in other countries, too—are kept going by means of State subsidies. And thanks to the subsidies they can sell and do sell below production costs, which means dumping. And while dumping transactions formerly were exceptions, they have become more and more the rule.


Governments cannot ignore this development. If they don't protect domestic enterprises against such unfair practices, numerous efficient and sound firms will be ruined and have to close. One may deplore this development, this "new mercantilism," but should recognize that dumping—and protectionism—is nothing but the last link of a chain, the inevitable secondary effect of extensive State subsidies.

It is important to distinguish between firms that are able to compete with low prices because of State sub-

sidies (dumping) and firms that are able to compete with low prices because of efficiency and low costs. In recent years countries like South Korea, Taiwan, Hongkong and Singapore have often—because of their competitive powers—been charged with dumping. But such charges were mostly unjustified. Their competitive prices were, more probably, the natural outcome of a highly efficient free enterprise production system.

### **The Tide is Turning as Freedom Wanes**

In the last decades of the 18th century when economic freedom released powers that started the industrial revolution, the tide was turning. Since then in the western world we have been living in a market economy, capable of producing higher and higher living standards. And we have been so integrated into this system that we take it for granted and look upon it as natural and normal.

But from a historical perspective all such happy periods are lucid intervals of limited duration. To all appearances we are now in the last stage of such an interval. Once more the tide is turning—the market economy threatened by suffocation for the lack of freedom. 

# RADICAL CAPITALISM

THE anarchists and the anarcho-capitalists have a seductive position. Who would not wish to be free of government? You pay your income tax, and the next day you read in the papers that the Department of Health, Education and Welfare has kicked away \$7 billion in fraud and waste. The fines levied by your town dog warden for your straying animal are on a progressively incremental basis—and in vain you plead that if your dog can't run free the woodchucks eat up both your own and your neighbors' gardens. When it comes to taxes and often niggling coercion you get it from both ends of the scale, whether federal or local.

Since the State is so incompetent and so oppressive in many ways, there should be a built-in audience for David Friedman's *The Machinery of Freedom: Guide to a Radical Capitalism* (Arlington House, 165 Huguenot St., New Rochelle, N.Y. 10801, 240 pages, \$10.00). This is an

enlarged version of an earlier work by Mr. Friedman, and not all of its statistics have been brought up to date. Its information about the expansion of the libertarian movement, however, is current, and the arguments presented by Mr. Friedman for his case mesh with the lively material that is now being presented month by month by a dozen or so new libertarian publications. We have reached a point where Mr. Friedman can call *The Freeman* "an old-line conservative-libertarian magazine," which can be taken, not as a put-down, but as a tribute to a pioneer who is suddenly surrounded by a host of new settlers.

Mr. Friedman, who happens to be the son of Milton Friedman, would presumably call himself a radical libertarian rather than a conservative. His "radical capitalism" would bring practically everything—schools, roads, the police, firemen—into the scope of free market opera-

tions. A conservative libertarian (such as myself) would go along with him on the subject of schools. The conservative libertarian can follow Mr. Friedman absolutely on the desirability of ending the government first-class mail monopoly. Mr. Friedman's plans for higher education—"Adam Smith University"—include a provision to let students pay the professors directly. The success of the Berlitz schools in teaching languages would argue that the direct payment for a marketable pedagogic commodity is feasible.

As for free immigration I can only say that I follow Mr. Friedman in my failure to worry about Mexican wetbacks who come to California and Texas to take jobs which nobody else wants to do. My only objection to opening the old Ellis Island gates indiscriminately relates to the idea, now enshrined in New York law, that the welfare rolls must be open to every indigent on an immediate basis. Mr. Friedman would take care of this by denying automatic welfare to any immigrant for fifteen years. He would also exempt immigrants from minimum wage requirement—or, even better, repeal the minimum wage outright.

### **Courts and Police**

It is when Mr. Friedman suggests that our police, our courts and the law itself can be turned over to the

marketplace that he begins to get on marshy ground. It is possible, as he says, for two contracting parties to provide for arbitration when they draw up contracts. The justice coming from private arbitration can be swift by comparison with the laggard proceedings of government systems. As for the police, the tremendous growth of private security organizations is evidence that protection can be bought and sold. The Wackenhut Corporation, for example, provides central station alarms, screens passengers in airports, and patrols the Trans-Alaska Pipeline.

Mr. Friedman is entirely plausible in making a case for the extension of private arbitration and private protection. But he is not at all clear on what might happen if a contracting party were to go on strike against the decision of a private arbiter. He suggests that anyone who might welsh on an arbitration agreement could be blacklisted by the business community. But who would have the power to enforce the blacklist? When, in the days of the so-called McCarthy terror, certain screen writers were blacklisted they simply changed their names and went on providing moving picture scripts for studios that were willing to pay for a good product no matter who originated it. The "market" cares nothing for blacklists.

Mr. Friedman envisages a society

in which there might be many courts and even many legal systems. Everybody would be entitled to his own protection agency. The pairs of protection agencies involved in a case would agree in picking a court. Ah, yes. But what if a murderer didn't like the court that had been chosen for him? Could he fire his protection agency at will? And what about appeals from a verdict? The whole concept of free market legal systems, competing in the same territory, is too nebulous for my grasp.

### **National Defense**

When it comes to national defense, even Mr. Friedman boggles a bit. How, when nuclear submarines and intercontinental ballistic missiles cost billions, could they be financed by what would amount to charitable contributions? What if the contributions were insufficient to protect the whole country? Would New York, having contributed more per capita than Philadelphia or Atlanta, be entitled to better protection? The idea of letting private insurance companies finance national defense with money from their customers also runs into difficulties: some people might consider themselves to be insufficiently menaced to take out insurance. Mr. Friedman also rejects Ayn Rand's idea of financing national defense by having the government charge for the use of its courts. As long as a

monopoly court system exists, it would be coercive taxation for the government to collect rent from anybody who is compelled to use the courts. Mildred Adams has suggested that voluntary taxation might pay for national defense. The citizen would pay his defense tax in return for getting the right to vote. But this would make the citizen part of a government, and how could any good anarchist accept that?

In the end, Mr. Friedman admits he has a baffling problem on his hands. If the free market cannot provide enough anti-aircraft defenses and cruise missiles, Mr. Friedman is prepared to make one exception to his anarcho-capitalist credo. "In such a situation," he says, "I would not try to abolish that last vestige of government. I do not like paying taxes, but I would rather pay them to Washington than to Moscow—the rates are lower."

Anyway, he says, "I said, near the beginning of this book, that I thought all government functions should be divided into two classes—those we could do away with today and those we hope to be able to do away with tomorrow." This makes David Friedman the realistic son of his father—and brings him closer than he thinks to the "old line conservative libertarians" who accept the limited government theory of Adam Smith and James Madison. ⑥

# A LITERATURE OF FREEDOM

Besides *The Freeman* and its articles, The Foundation for Economic Education publishes or otherwise stocks for resale a number of books of other publishers concerning the free market, private property, limited government concepts and the moral and spiritual principles underlying freedom. These titles and prices are listed in an annual catalogue-order form distributed with the November issue of *Notes from FEE*. Additional copies of that catalogue are available on request.

Several readers have asked for more descriptive reviews of these books than the catalogue affords; hence, the following abstracts.

This list by no means includes all the authors or books worth studying in the field, but it will suggest the various areas and ideas on liberty to be further explored.

## **BALLVE, FAUSTINO** **Essentials of Economics**

This is a primer of economics for the intelligent layman by a great Spanish authority. It deals lucidly with the basic concepts of economics and puts economic thought into historical perspective. It is a positive presentation of the principles of economics.

## **BASTIAT, FREDERIC** **Economic Harmonies**

It has been the great work of economics to discover the natural harmony that

results when men are free to pursue their interests in their own way and prevented from using force and fraud. By contrast, socialists find discord, disharmony, and exploitation when men are free. Bastiat reaffirms and reasserts harmony in this his most extensive exposition of economics.

## **Economic Sophisms**

This is Bastiat's most delightful book. It is devoted almost entirely to exposing the fallacies of protectionism and associated policies. His method is the logi-



cal extension of their ideas to the point that their absurdities become apparent. Bastiat bemoaned the necessity of going deep, but his writings are so luminous that the reader can stand safely on the shore and survey the depths.

### **The Law**

The law, it has been said, is nothing more than the will of tyrants. So it has been many times in history. But just laws depend upon a law which underlies the law passed by legislatures or declared by rulers. It is a law which provides the framework of liberty. Emancipation from the doleful theories of the compulsive state awaits discerning readers of this brief treatise.

### **Selected Essays on Political Economy**

The discovery of economics by Bastiat conferred a great boon on the world. For through him a delightful way was provided for every literate person to discover economics. It was Bastiat's insight that all schemes of government intervention are more than somewhat ridiculous. It was his gift to present them in such a framework that others could see them in the same light. His essays on political economy hold the state up to the bright glare of the light in such a way that none who have read it should ever again be fooled by the fraudulent claims of the benefits of the use of political power.

### **BÖHM-BAWERK, EUGEN VON Capital and Interest**

Anyone interested in being "present at the creation" of the modern structure of economics, even vicariously, will find it exciting to read Böhm-Bawerk's studies. He may have been moved to some extent

by his desire to refute the socialists, but it was even more important to him to get economics on a solid foundation. His lucid explanations may make it appear that the task was easy, but in this massive work, he was struggling manfully to nail the edifice of economics to a foundation that would hold it in place.

### **The Exploitation Theory of Socialism-Communism**

The Labor Theory of Value was the foundation of Karl Marx's theory of exploitation, as well as that of many other socialists. Böhm-Bawerk here subjects the theory to careful analysis and exposes its fallacies. The impact of this demonstration is to cut the foundation from under Marxism.

### **Value and Price**

Marx claimed that the price goods bring is determined by the labor that goes into making them available. The Austrians developed a counter theory to that of Marx. Value was their crucial concept in this theory. In this extract from a larger work, Böhm-Bawerk makes the seminal formulation of what he called "the subjective theory of value." By way of this theory, the buyer in the market place assumes his important role in determining price.

### **BROWN, SUSAN LOVE and others The Incredible Bread Machine**

Most history textbooks are filled with bias against private enterprise, and in favor of government intervention. A group of young people assembled materials that counter that bias. In clear and provocative language they have described the doleful impact of government

intervention in the economy. They have, by so doing, uttered an articulate cry for freedom. The young may have their eyes opened by reading it; older readers may find hope in the appearance of such thoughtful young writers.

### **CARSON, CLARENCE B.** **The American Tradition**

Is the libertarian position incompatible with conservatism? Somewhere, perhaps, but in the United States, *NO!* This becomes clear in this careful and illuminating work on the American tradition. In the United States, a great tradition took shape that was protective of and in harmony with liberty. This book describes, too, how the tradition has been distorted and is being undermined.

### **The Fateful Turn from Individualism to Collectivism**

Most histories ascribe the massive government intervention of the 20th century to changing circumstances. In this path-breaking work, Clarence Carson shows that it was changing ideas which really underlay the movement. The case for individual liberty is set in a philosophical framework freed from materialism and determinism.

### **The Flight from Reality**

We live in a world of cause and effect. Predictable consequences follow from actions because there is an order in the universe that makes it so. Reformist intellectuals have emerged in our era who ignore this order, and this enables them to visualize a new order of their own creation. The result is spreading disorder, with tyranny in the wings. There is the flight from reality.

### **The Rebirth of Liberty**

Liberty has been all too often stillborn in the revolutions of our era. The promises of freedom were but deceitful allure from would-be tyrants. One revolution was different, however; it was the American Revolution. How the promise was turned into reality is the subject of this contemporary study of the great men and events of that revolt by Americans from English rule.

### **Throttling the Railroads**

The railroads drew the American people into an economic union. Even before they had succeeded in doing that, however, governments began preying upon them, regulating, disrupting, and inhibiting their activities. This book tells the story of that regulation and its debilitating impact on a once great industry.

### **CHAMBERLAIN, JOHN**

#### **The Enterprising Americans**

Those who are used to seeing American business pilloried for its warts will be pleasantly surprised—and relieved—by this study. True, businessmen have faults, even as do the rest of us. But they deserve to have their achievements memorialized without ideological bias. John Chamberlain has performed this service admirably and in accord with the canons of good scholarship.

#### **The Roots of Capitalism**

The connection between economic thought and practice is a vital one. In similar manner, the precondition of private property to the effective use of capital is essential. Chamberlain has woven these and other threads together to tell

the modern story of freedom and production.

### **CURTISS, W. M.**

#### **The Tariff Idea**

No notion has been more persistently held in our era than the one that obstacles ought to be placed in the way of goods entering a country. Even today auto stickers proclaim "Every foreign car imported cost 10 jobs for Americans". W. M. Curtiss has exposed this fallacy in this brief, easy-to-read and hard-to-put-down booklet. The case for freedom is clearly and forcefully made.

### **DIETZE, GOTTFRIED**

#### **In Defense of Property**

What is the role of private property? Is it theft, as Proudhon proclaimed? Is it simply a means by which the individual pursues his selfish interests? Professor Dietze presents a quite different view in this erudite study. Property is the linchpin of civilization. It is essential to the determination and maintenance of what is proper. When the protections of it are removed, the civilization disintegrates.

#### **The Federalist: A Classic on Federalism and Free Government**

It is generally conceded that *The Federalist* was the greatest American contribution to political thought. It follows that a clear understanding of these papers and the thought of the men who wrote them is vital both to thinking about politics and to an understanding of the United States Constitution. Professor Dietze has provided invaluable aids to doing this in his seminal work on *The Federalist*.

### **FRIEDMAN, MILTON**

#### **Capitalism & Freedom**

There is an unavoidable nexus between government and economics. The art of governing is entangled with economy. It is at the junction of the two that Milton Friedman brings his searching analytical mind to bear in this book. He realizes that the hope for freedom lies in reducing the role of government and extending the freedom of the individual. He makes not only some statements of general principles but also some interesting concrete proposals.

### **GARRETT, GARET**

#### **The People's Pottage**

Something happened to the character, kind, and quality of American government in the 1930s. That the New Deal was the engine of the change none can doubt. Garet Garrett tells what happened and how it happened, clearly, vigorously, and with a horrified fervor. Above all, it happened in the kind of necessary order and under such a cloud cover of confusing language that it had to constitute a *coup d'etat*.

### **GREAVES, BETTINA B.**

#### **Free Market Economics,**

2 volumes: *A Basic Reader* and *A Syllabus*

Economics has been described as the dismal science. Some students may even think of it as a dreary study with its endless charts, graphs, and statistics. But free market economics is not that way. It is a hopeful science. These selected readings and accompanying study guide make it as delightful as man thinking, discerning, and setting forth in the most attractive way his best ideas.

**GREAVES, PERCY L., JR.****Mises Made Easier**

Professor Ludwig von Mises wrote within the framework of the great intellectual debates of the past century. Also, in his greatest work, *Human Action*, he wrote with fine precision, choosing just the word that expressed his exact meaning. For these reasons, a glossary of the most important concepts, and most difficult, is a great aid to those who would understand his writings. Percy Greaves has provided such a glossary written in familiar language.

**Understanding the Dollar Crisis**

The dollar is declining in value. There have been several official devaluations, and there is a continual day-to-day decline in its value. Why is the dollar falling in value? What is the cause of it? How can the situation be changed? In a series of lucid lectures, Percy Greaves answered these questions in Argentina, and they are now available in book form.

**HALL, VERNA M.****The Christian History of the Constitution of the United States**

The Constitution of the United States was founded upon the conception of a Higher Law. The Higher Law concept is itself founded in the belief in the laws of God. Verna Hall has collected and arranged in a single volume the evidences of the Christian foundation of our Constitution.

**HAMILTON, ALEXANDER and others****The Federalist**

Serious students of government, and particularly American government, may well begin with these papers written by

John Jay, Alexander Hamilton, and James Madison. It is the most brilliant justification and explanation of the Constitution that has been made. The principles of effective government and liberty are set forth in this great work!

**HARPER, F. A.****Why Wages Rise**

Do real wages depend upon the growth of labor unions? The pumping of money into the economy? Higher minimum wage laws? Increased unemployment benefit payments? In this study of the trend of real wages in the United States since 1860, Dr. Harper traces their rise to the saving and investment of productive capital in open competition in a free market.

**HAYEK, FRIEDRICH A.****Capitalism and the Historians**

(edited by Hayek)

Did working conditions worsen with the coming of the industrial revolution? Did pre-industrial man lead a simple, unhurried, and gracious life? Have our historians presented an accurate picture of the economic past? Or were they all too often presenting distortions to promote political programs? The authors included in this anthology present some startling charges and support their allegations with a convincing array of evidence.

**The Constitution of Liberty**

Every party claims to favor freedom in our day. Yet this cannot be so, as Hayek points out, because some of their policies and practices result in the loss of liberty. The time has arrived to get a fresh hold on the meaning and implications of liberty. By his superb exposition, Hayek

has drawn the domain of liberty so that those who will read him may survey it whole. More, he applies his theories to policies he would recommend.

### **The Road to Serfdom**

What are the effects of economic planning by government? Is there a real choice between liberty and security? What happens to the rule of law under socialism? What happens to morality under socialism? Hayek answered these and other related questions about socialism during World War II. What has happened since has further confirmed Hayek in his belief in the superiority of freedom and the correctness of his analysis.

### **HAZLITT, HENRY**

#### **The Conquest of Poverty**

What is poverty? How may it be reduced? What are or would be the effects of most proposed efforts? Of minimum wages? Of a guaranteed wage? Of a Negative Income Tax? Of forced employment? Of land redistribution? Mr. Hazlitt has taken up these and numerous other proposals and shows how ineffective they are, or would be. This is a sure-handed analysis of what is wrong with the programs that are supposed to help the poor.

#### **The Critics of Keynesian Economics** (edited by Hazlitt)

Much of the world is in the throes of an inflationary binge the like of which has never before been experienced on this scale. John Maynard Keynes provided a theoretical justification of this inflation in his *General Theory*, published in 1936. It is eye-opening then to read what many leading economists have had to say about the Keynesian theory.

### **Economics in One Lesson**

Does the destruction of buildings and equipment make for prosperity? Can government provide more employment? Do farmers need cheaper credit? Do jobs need to be spread around? Do protective tariffs benefit everybody? What is the impact of a government decreed minimum wage? Henry Hazlitt asks these and dozens of other questions and provides the answers—clearly, simply, directly, and persuasively.

### **The Failure of the "New Economics"**

Was John Maynard Keynes' *General Theory* internally consistent? Was his "Propensity to spend" theory even factually based? Were his formulas really supported by any proofs? Why were the obscure theories of Keynes so popular? Henry Hazlitt has exposed the whole pretentious mess for what it is—a call for political action supported by a facade of economic obfuscations.

### **The Foundations of Morality**

Utilitarian ethics has a modern, and gracious, spokesman in Henry Hazlitt. The spirit of conciliation runs through this his *magnum opus*. Those who disagree in some measure with what is persuasively argued here will nonetheless benefit from reading such an able exposition of it.

### **The Inflation Crisis, and How to Resolve It**

In this 1978 updating and expansion of *What You Should Know About Inflation*, Hazlitt lays bare the facts about the New Inflation and analyzes problems the media scarcely skim, if they notice them at all. He shows how to protect yourself from the worst ravages of inflation, and

shows how simple it would be to turn the tide—if we can develop the political will to do it.

### **What You Should Know About Inflation**

What is Inflation? What causes it? What are the effects of inflation? Is a deflation desirable? Can government control an inflation? How can government be made responsible in its fiscal policies? Henry Hazlitt answers these momentous questions and answers them simply, directly, and with no unnecessary qualifications or complications.

**HUTT, WILLIAM H.** (edited by Svetozar Pejovich and David Klingaman)

### **Individual Freedom: Selected Works of William H. Hutt**

Among the most tangled issues of this era are: state power and individual rights; how to restrain the state to free the individual; what to do about private groups (such as labor unions) who exercise coercive power; and whether a free market works or not. William H. Hutt sheds light on these with his precise thinking and careful scholarship.

**JUNG, C. G.**

### **The Undiscovered Self**

A great psychiatrist speaks here out of a lifetime of experience to what is needed in the world today. There is one thing, he says, that can successfully stop collectivization. There is something stronger than the mass. It is the individual,—the unique, different, and exceptional individual. When the discovered self replaces the undiscovered self, such an individual emerges.

**KIRZNER, ISRAEL M.**

### **Competition and Entrepreneurship**

The market is surely the key concept in economics. The tendency toward equilibrium is one of the concepts that is an offshoot of market theory. However, a good deal of mischief has resulted from a failure to grasp the entrepreneurial role and its contribution to competition. Professor Kirzner brings careful analysis to broaden our understanding of what happens in the market.

### **The Economic Point of View**

What is economics? Does it consist of a department of human affairs? Or does it deal with an aspect of human action? Can there be a science of economics? How must it begin and what must be excluded from it? These are the basic questions which Kirzner examines in his fundamental study of the emergence of economics.

**KOOIMAN, HELEN**

### **Walter Knott: Keeper of the Flame**

According to a famous historical treatise, the frontier ended in 1890. The frontier was understood to be a symbol of opportunity in America. If Walter Knott encountered this notion, he certainly did not believe it. The story of his life is a refutation of any such notion. His life is a testimonial, too, to the importance of freedom.

**LOVE, ROBERT**

### **How to Start Your Own School**

A school which follows the guidelines of the freedom philosophy is an exciting undertaking. It treats parents and students as customers, education as a com-

modity, the headmaster as a business man, and the teacher as a producer. Wichita Collegiate School has followed these guidelines, Robert Love maintains. The results are well worth examining.

### **MACKAY, CHARLES**

#### **Extraordinary Popular Delusions and the Madness of Crowds**

Those who are enamored of the supposed wisdom and sagacity of the people might profit from reading this book. Any who suppose that the number who believe or participate in something tells us anything of its validity will find a healthy corrective. Doing what everyone does loses its attraction in the perspective of this marvelous history of mass delusions, whether the delusion was John Law's inflationary scheme, or witchcraft, or infatuation with thieves, or what not.

### **MANION, CLARENCE**

#### **The Key to Peace**

Those who think that the American way can somehow be evoked by a vague and general term such as "Democracy" should be especially interested in this booklet. With great economy, Clarence Manion covers the key ideas in the Declaration of Independence and describes the basic institutions and practices. It reawakens pride in America and respect for the heritage.

### **MILL, JOHN STUART**

#### **On Liberty**

Is individual liberty of value only to the individual? Can liberty be endangered by majority rule? What is the purpose of life? What is the connection between this and liberty? Where should the power of society end and the liberty of the indi-

vidual begin? These are the questions which Mill asks and to which he provides illuminating answers in these essays.

### **MISES, LUDWIG VON**

#### **The Anti-Capitalistic Mentality**

Why do so many intellectuals hate capitalism? Why is it possible to get the approval of so many people for measures to restrain and penalize businessmen? A gifted scholar brings his vast learning and intuition to bear on the subject. He even explains the popularity of the detective story from this angle. American readers will find this study particularly illuminating.

#### **Bureaucracy**

Bureaucracy is neither good nor bad in itself. It is an appropriate technique for the conducting of administrative agencies such as the police department. However, when bureaucracy enters the field of economic activities, the result is disregard for the interests of consumers and disastrous rigidity and stagnation of the economy.

#### **A Critique of Interventionism**

The economic principles that Mises expounded in these six essays during the 1920s have endured the test of time. The names and places have changed, but the same tired statist notions prevail. Mises' incisive criticisms are as pertinent for Americans today as they were for the Germans of the Weimar Republic.

#### **Human Action**

Although Mises wrote many books, this one is his *magnum opus*, the distillation of all his thought and learning. Although it is a broadly philosophical work and deals incisively with many

branches of knowledge, all this is brought to bear on its object, economics. It is an indispensable work for those who would master the study of man acting economically.

### Notes and Recollections

Written in 1940, this is the story of the European economist who valiantly defended European civilization against the "Socialists of the Chair" until that civilization had vanished in the darkness of World War II. This was the prelude to his second life of writing and teaching in the United States from 1940 until his death in 1973.

### Omnipotent Government: The Rise of the Total State and Total War

Whence the penchant for total war in the twentieth century? How is this related to economic theory and practice? What was the demonic urge behind the rise of the Nazis to power? In essence, what did Nazis and Communists have in common? In this work, Mises brought his masterful powers to bear on the phenomenon of the total state.

### On the Manipulation of Money and Credit

Translated by Bettina Bien Greaves and edited by Percy L. Greaves, Jr., are these earlier writings of Mises concerning political attempts to stabilize the purchasing power of money and eliminate the undesirable consequences of the "trade cycle." Also included is a bibliography of the works of Mises on money, credit and banking.

### Planned Chaos

The destruction of liberty in America as elsewhere has been accomplished both

by private violence and by the near irresistible force of the modern state. This "easy, bloodless and non-violent" transition to socialism is the subject of *Planned Chaos*. Professor Mises tells why the popularity of this policy is not a safe test of its soundness, why it fails in its avowed purposes, and what it does to nations which pursue it.

### Planning for Freedom

Mises was one of the major theoreticians in the enduring principles of economics. These theories he was quick to apply to various of the controversies of his time such as "excess" profits, inflation, central planning, unemployment, and so forth. Mises took sides courageously and argued dispassionately and well.

### Socialism

Is economic calculation possible under socialism? What does socialism do to society? How do capitalist countries prop up and enable socialist countries to survive? What is the crucial difference between interventionism and socialism? In this work, Mises used his great analytical powers to dissect the various aspects of socialism, to subject the ideas to the test of reality, and to expose their fallacies.

### Theory and History

Whence came Marxism? What is the intellectual framework of socialism? How did European thought come to reduce so much of reality to history? This is a wide-ranging philosophical work on the great issues of our age. Follow a great mind as it wrestles through delusions to truth.

### The Theory of Money and Credit

What people know, or think they know,



about money and credit isn't necessarily so. For example, can government decree what is to be money in a society? Mises demonstrates decisively that this is not what governments do. In his careful scrutiny of every aspect of money and credit he brings new insight and precision to the handling of the subject.

### **MISES, MARGIT VON**

#### **My Years with Ludwig von Mises**

Ludwig von Mises was very much the formal man in public. To know his writings and hear his lectures was not to know him personally. This gives especial value to these glimpses behind the scenes by the one who knew the greatest economist of the twentieth century best, his wife, Margit von Mises.

### **MOREELL, BEN**

#### **The Admiral's Log**

Ben Moreell towered above most twentieth century Americans. Not because of his height—though he was above the average—not because of his accomplishments, though they were outstanding—prominent engineer, Admiral in the Navy, leading industrialist, writer, speaker, and statesman—but because of his courage, his integrity, and the high principles for which he stood. The best way to get to know him is through his speeches, some of the most important of which are included in these selections.

### **NOCK, ALBERT JAY**

#### **Cogitations from Albert Jay Nock**

(Robert M. Thornton, editor)

There is a specific medication to purge the system of the disease of statism. Its name is Albert Jay Nock. True, the

medicine is addictive if taken in large doses but the addict is only much freer of the thrall of statist cant. This booklet serves only to introduce Nock, but everything has to begin somewhere.

### **NORTH, GARY**

#### **An Introduction to Christian Economics**

Is there a "Christian" economics? Indeed, is there an economics that does not have its foundations in Christianity? Do economic laws have ultimate sanctions? Dr. North has tackled these questions head-on and come up with revealing answers. Indeed, the answers are a part of Christian Revelation rightly interpreted, he insists. Christians will want to know what is said here; others need to know.

### **OPITZ, EDMUND A.**

#### **Religion and Capitalism:**

#### **Allies, Not Enemies**

Does Christian Socialism make sense? What are the ultimate foundations of freedom? What is the ultimate source of values and ends? Where does economics fit within the framework of philosophy? Is theism simply a convenient premise? An outstanding clergyman brings careful analysis and concern to bear on these enduring questions which are particularly important now.

### **READ, LEONARD E.**

#### **Accent on the Right**

There are ways of looking at things that make it nearly impossible to decide anything. Leonard Read invites us to ask some questions that can be answered, to

focus our attention in such a way that we can draw conclusions. He shows us how to work our way out of the darkness by following glimmers of light. That is the meaning of accent on the right.

### **Anything That's Peaceful**

If Leonard Read simply announced that he favored anything that was peaceful, what man of good will could disagree with him? But he does not leave it there. He goes on to name and demonstrate that a great many things we are doing do not make for peace. He shows that the peacemakers are greatly outnumbered by the aggressors. The core of his philosophy is set forth in this book.

### **Awake for Freedom's Sake**

Leonard Read's mission has been to stand in awe at the wonders about him—wonders both natural and man-made—and to open our eyes to their marvelous character. He has preferred the journey to the destination, curiosity to the knowledge, the imagination to the static condition, and freedom to security. It amazes him that so many should serve him in the market, unbeknownst to them, and he pauses to acknowledge what they do. Those who read this lyrical book may wish to join him in a chorus.

### **Castles in the Air**

What is the secret to productivity? How may man's lot be bettered? Capital accumulation is not *the* answer. Tools are not *the* answer. These are valuable adjuncts in the effort to improve our material well-being. But there is a way to improve our moral, spiritual, and material well-being. First, there must be castles in the air. But for these to lead to anything, certain conditions must be

present. Leonard Read sets them forth in this book.

### **Comes the Dawn**

To humbly recognize and daily count our blessings is a vital first step toward that faith in freedom which will allow it to burst forth and overcome the darkness of socialism. Only then may we hope to bequeath to our children the foundations of liberty we inherited.

### **The Coming Aristocracy**

Society must be shaped and influenced by aristocrats. Not hereditary aristocrats. Not aristocrats who lord it over other people. But aristocrats who are superior to others, who will be examples of what they teach, who will be followed because they so obviously know better. Leonard Read has some thoughts on how such aristocrats may emerge.

### **Deeper Than You Think**

How do you measure growth? What is the effect of machines on our lives? What is the origin of the numerous "Problems" we hear so much about today? The answers, Leonard Read says, lie deeper than you think. They can be found only by getting things into a proper perspective. He demonstrates how it can be done with a number of telling examples.

### **Elements of Libertarian Leadership**

A leader of mass men is one thing; a leader of free men is another. First it is necessary to know the difference. Then it is necessary to go to work changing and improving the one person who is available for the effort. Leonard Read explains why and how this is to be done.

### **The Free Market and Its Enemy**

Who are the enemies of the free market?

Is it the state? Is it the government? Is it ignorance? Is it thinkers? Leonard Read here sets forth an answer that is startling in its simplicity, yet covers the field of all the particular enemies. There is much else in this brief book, but the character of the enemies is the central point.

### **Government—An Ideal Concept**

Some vital questions for those concerned with liberty. Is government necessary? Is government an evil? Is taxation a proper use of government power? What about conscription? What are the improper and illicit uses of political power? Leonard Read employs his basic premises and practical understanding to come forth with answers.

### **Having My Way**

If there are macro problems in the world, Leonard Read thinks, they are probably reducible to micro problems. More specifically, the great problems are really problems with individual dimensions. They are of this order: How can I improve myself? What should my attitude be? How can I become the sort of person that other people would want to be with and consult? The answers to these and other such questions turn out to be wondrously in accord with the freedom philosophy.

### **Instead of Violence**

Violence, Leonard Read suggests, is the way to destruction. It is the easy way—just as it is easier to destroy a structure than to build one—with the hard results. It is the way to inhibit creative activity and to foreclose opportunities. There is another way. Here is his rhapsody in tribute to that way.

### **Let Freedom Reign**

Every man wants to be free himself, although he may not be so enthusiastic about the responsibilities entailed. But freedom for others—that is another matter. It is all too easy to imagine how this would threaten us. One of Leonard Read's great insights is how potentially beneficial to all of us is the freedom of others to create. This book focuses upon that insight and unfolds it in a variety of ways. The *pièce de résistance* is "The Miracle of a Meal." But each essay contains its own special tribute to freedom.

### **Liberty: Legacy of Truth**

In contemplation of his 80th birthday, Leonard Read counsels that one's ambition in every laudable endeavor should be nothing less than an ever-improving excellence. Out of perpetual inquiry, the wooing of truth, comes the understanding and practice of the liberty on which our lives depend.

### **The Love of Liberty**

What is liberty? Why love it? How does love of self merge with the love and concern for others? Out of a lifetime of commitment to liberty, Leonard Read speaks with authority on the burning issue of our day. He grasps the concept of liberty at its center and unfolds its numerous aspects for those who will to see.

### **Talking to Myself**

It is commonly believed that people who talk to themselves are at least slightly "off." On the contrary, Leonard Read holds that it may well be our most rewarding undertaking. True, it is not necessary to talk aloud, but the inward dialogue is itself essential. It may be that

we will be ready to communicate with others when we have talked it out with ourselves. The method that Read recommends is clearly set forth here.

### **Then Truth Will Out**

The problem, Leonard Read says, is fundamentally moral and spiritual. Understanding is important, and economic understanding is essential. But where there is greatness there must be great individuals. When men of virtue emerge, they will be followed. The aim of this book is to awaken the dormant spiritual-ity within us.

### **To Free or Freeze**

Leonard Read has the knack of putting into everyday words the conclusions of many great thinkers. In this book he does that for some basic economic ideas. Others may explore in intricate detail the framework of economics. For him it is enough to go from premise to conclusion in as short a fashion as possible so that the connection is not lost. He presents some of the great economic and political issues of our day in such a way as to make a choice possible.

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### **Legacy of Freedom**

Freedom is not simply something that can be conceived and discussed. To know

it is not just to know an idea, ideology or philosophy. It has a history, a background, and a tradition. It has taken shape within the warp and woof of societies. Dr. Roche has here evoked and described that great tradition.

### **Power**

The extensive use of political power has two general impacts. One is the restriction of individual liberty. The other is the disruption of society. George Roche explores both of these effects here. He also provides a synoptic history of efforts to limit power.

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What caused the depression that followed upon the stock market crash in 1929? Did it signify the failure of the capitalistic system? Was it the result of under-consumption? What part did government intervention play in setting off the depression? Professor Rothbard brings the analytic tools of an economist and the descriptive powers of the historian to the task of solving these riddles. His conclusions are unusually valuable for understanding both the past and the present.

#### **The Essential von Mises**

Those who have never heard of the Austrian School of economics will find here a stimulating introduction to it. Those who are well acquainted with it can see the whole movement in perspective. Rothbard brings the movement and the men—particularly the man, Ludwig von Mises—alive in this stirring account.

#### **Man, Economy, and State**

Perhaps the most distinctive contribu-

tion of the Austrian School has been to restore man to the economic equation, not, it should be noted, sentimentalized man but man acting, man thinking, man making choices among means to achieve his ends. Murray Rothbard has integrated this insight into a statement of economic principles. The result is a dynamic view of economics which provides the guidelines for economic and political action.

#### **What Has Government Done to Our Money?**

Money is supposed to be a most difficult subject. It may be, but none would ever guess it from reading Murray Rothbard on the subject. He explains the intricacies of money in clear and simple language, easy to follow and fascinating. Nor does he leave any doubt that government has wrought havoc with our money.

### **RUSSELL, DEAN**

#### **Frederic Bastiat: Ideas and Influence**

Devotees of freedom who have not discovered Bastiat have a treat in store. After reading his devastating critiques of various government interventions, it becomes important to know the man behind the polemics and what he did about his ideas. Professor Russell provides a valuable guide to the man, his ideas, and his actions.

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sor Sennholz provides a well thought out manual for those who want light rather than emotional verbiage on the subject.

### **Gold is Money** (edited by Sennholz)

Economists who do not talk sense about money do not talk sense for very long. That is because economics has to do mainly with exchanges of goods, and money is the medium of exchange. The authors of the essays in this book talk sense about money. It is, therefore, an invaluable foundation for anyone trying to understand economics.

### **Inflation, or Gold Standard?**

Much of the debate about money assumes that there are all sorts of monetary possibilities. Professor Sennholz maintains the contrary. The live choice is between inflation or a gold standard. Experience and theory support this conclusion.

### **SENNHOLZ, MARY**

#### **Faith and Freedom**

J. Howard Pew was a distinguished entrepreneur, Christian layman, and philanthropist. He brought a similar zeal to each of these undertakings. His business career was a tribute to free enterprise and his greatest concern, next to advancing the Christian religion, was the expansion and preservation of individual liberty. The story of his life emerges in the words of Mary Sennholz and the account of his beliefs is in Mr. Pew's own words.

### **SMITH, ADAM**

#### **The Wealth of Nations**

Before the publication of this work, there was no branch of knowledge deserving of the name of economics. True, there were

some works published about how some people could get ahead at the expense of others. It was Smith's great achievement to perceive an order within which each man's efforts benefited all. Smith's economics is firmly grounded in self-interest, and a basis is established for the general improvement of mankind.

### **SOWELL, THOMAS**

#### **Race and Economics**

Thomas Sowell has ploughed new ground in writing about race and economics. Much moralizing has of course been done on the subject, but all too little careful analysis. The author of this enlightening book brings both a knowledge of economics and the history of races and ethnic groups in the United States to his discussion. Those who would replace sentiment and prejudice with learning need to consult and study this book.

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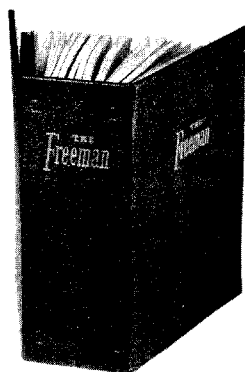
What is inflation? What causes it? What is its pattern of development? What are its inevitable consequences? Andrew Dickson White composed and published a work in 1876 which became a classic on the subject. Revolutionary France was the particular locale for the study, but

inflation anywhere and everywhere is its subject.

#### **WILLIAMS, ROGER J.**

##### **You are Extraordinary**

Many of the most striking benefits of science have come by focusing on universal cause and effect sequences. Hence, scientists often have a bias in favor of uniformities. This creates a distorted picture when applied to man, Roger Williams tells us. We are individuals, he says, unique, different, and even one of a kind. And he proceeds to present, in a readily understood manner, impressive evidence for it. Government intervention is repressive because of our individuality, or made more so. 



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VOL. 28, NO. 12 • DECEMBER 1978

- Glory Be!** **Leonard E. Read** 707  
True glory consists of the service of truth and freedom.
- The "Invisible Hand" or the Heavy Hand?** **John Montgomery** 711  
A timely reminder of the dangers we face if we allow controls to close the market.
- Are Successful Businessmen Just Lucky?** **Brian Summers** 719  
Not by pure chance, but by the foresight of businessmen, are consumers served efficiently.
- Government Spending Must Be Cut** **Hans F. Sennholz** 721  
Meaningful tax reform hinges on the moral strength to resist special privileges government may arrange.
- World in the Grip of an Idea**  
**24. The Cold War: The Spread of Communism** **Clarence B. Carson** 725  
Communism is less a political theory than a set of claims and promises—justifications—for holding and exercising power.
- Native Pottery Only** **William L. Baker** 739  
A study of the harmful effects of "protectionism," as applied during the Civil War—or today.
- Austerity, Waste, and Need** **E. C. Pasour, Jr.** 743  
In the absence of market signals, the regulator faces severe information problems—and consumers suffer needlessly.
- A Human Action Taxonomy** **Dale Haywood** 753  
We interact in society voluntarily or coercively—and the consequences make all the difference.
- Book Reviews:** 756  
"Adam Smith and the Wealth of Nations" edited by Fred Glahe  
"Adam Smith: Man of Letters and Economist" by Clyde E. Dankert  
"Government by Judiciary: The Transformation of the Fourteenth Amendment" by Raoul Berger
- Index for 1978** 761

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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# GLORY BE!



*True glory consists in doing what deserves to be written; in writing what deserves to be read; and in so living as to make the world happier and better for our living in it.*

—Pliny, The Elder

The Roman naturalist, Pliny, The Elder, was born in 23 A.D. When he passed away at the age of 56, he had written 37 books on the nature of the physical universe—including geography, anthropology, zoology, botany and other related subjects.

Pliny did, indeed, leave the world happier and better for having lived in it. His scientific findings have been far surpassed, as we would expect. And if we live our lives

aright—in freedom—the miracles of the future will surpass our findings, as ours have his! He lived every moment of his life with zest—enthusiasm—perhaps the greatest stimulus for noble works. Wrote Emerson: “Every great and commanding movement in the annals of the world is the triumph of enthusiasm. Nothing great was ever accomplished without it.”

True glory consists in doing what *deserves to be written*; it consists in noble deeds worth recording. This is to be distinguished from blatant notoriety. History presents far more writings of the latter sort than the former. Alexander the Great, Charlemagne, Napoleon, Hitler, Stalin, and countless other great destroyers loom too large in written history.

Why these lopsided recordings? It is the bad, not the good, which attracts the public eye. Observe today's media and the preponderance of reporting that does not *deserve* to be either written or read, spoken or heard.

The following is an attempt to think through and to understand Pliny's three parts of True Glory. If even partially successful, I will make a small contribution to the displacement of that which should be neither written nor read.

• *True glory consists in doing what deserves to be written*—In my study of writing that deserves to be written, I've been surprised that most of the world's great writers—past and present—never kept a daily journal. Obviously, they had other disciplines that brought out their remarkable writings. We are all different in all respects. As for me, I have kept a journal for nearly 27 years without missing a day—capturing every thought that comes to mind or that I have learned from others—a rewarding experience. What a discipline—writing such entries for nearly 10,000 days!

Recently I came upon my entry of August 11, 1955, long since forgotten:

If it were not for the gravitational force pulling us down, there would be no such concept as "up."

If there were no darkness, we

would have no sense or appreciation of light.

If there were no evil, we would have no awareness of virtue.

If there were no ignorance, we would not know intelligence.

If there were no troubles, there would be no pleasures.

If there were no obstacles, there would be no aspirations.

If there were no insecurity, we would not know of security.

If there were no blindness, we would not be conscious of perception.

If there were no poverty, we would not experience riches.

If no man ever imposed restraint on others, *there would be no striving for liberty and the term would not exist.*

I now recall discovering, just a few days later, while reading Runes' *Treasury of Philosophy*, that around 500 B.C. Heraclitus was saying the same thing: "Men would not know the name of justice if there were no injustice." This made me laugh at my "originality" and brought to mind Goethe's assertion: "All truly wise ideas have been thought already thousands of times."

Assuming the above observations to be valid, then "doing what deserves to be written" is learning how to cope with and overcome life's

countless obstacles. It is an observed fact that the art of becoming—human development—is composed of acts of overcoming.

Gravitation, for instance, is a physical force drawing all and sundry toward the earth's center. What else accounts for physical ascendancy! Were there no such force, there would be no ladders or airplanes or rain or snow—indeed, no life!

Obstacles are assuredly the source of aspirations. Human frailties—which lead to such things as governmental interventions of the kind that destroy creative activities—inspire their own overcoming. Why, then, do errors have their value? Their overcoming leads to evolution—human Liberty!

A Latin proverb: "Nothing is too often repeated that is not sufficiently learned." This encompasses an enormous realm, including every thought that reveals truth—repeating it over and over again, seeking improvement. *Learning how to overcome may very well rank first in what deserves to be written!*

• *True glory consists in writing what deserves to be read*—There are countless thousands of books, articles and commentaries that deserve to be read. The vast majority of these writings are known to a mere handful of people. I shall refer to only one that is an inspiring and instructive example: *You Are Ex-*

*traordinary* by Roger J. Williams.<sup>1</sup>

Professor Williams, a noted biochemist, became convinced that his wife's death was caused by the doctor treating her as "an equal," rather than as an individual. This led the Professor to his first study in human variation, having to do only with the variation in taste buds in different people. The findings, published in *Free And Unequal*, are fantastic.<sup>2</sup>

Having an unusually inquiring mind, he began an investigation into ever so many other forms of variation. The findings appeared in 1956: *Biochemical Individuality*, somewhat technical for lay readers.<sup>3</sup> Nevertheless, I read it with avidity, because it contained an important key to the freedom philosophy. It was this book that led to my acquaintance with the author.

We corresponded, and after answering a question of mine he added that he had just written a book, to be entitled *You Are Extraordinary*, designed, he said, for lay readers. The manuscript was enclosed.

Professor Williams is extraordinary. So are you and so am I and so is each human being. Indeed, no one is the same as a moment ago. Variation is a rule of all life—plant, animal and man.

<sup>1</sup>*You Are Extraordinary*, Pyramid Books.

<sup>2</sup>*Free And Unequal*, University of Texas Press.

<sup>3</sup>*Biochemical Individuality*, Wiley.

Why does *You Are Extraordinary* deserve to be read? It makes the case for liberty. Wrote William Gifford:

Countless the various species of  
mankind;  
Countless the shades that  
sep'rate mind from mind;  
No general object of desire is  
known,  
Each has his will, and each  
pursues his own.

Once variation is recognized as a fact of life, there can be no endorsement—none whatsoever—of know-it-all controlling the creative actions of you or me or anyone. Authoritarianism dismissed as utter nonsense! We would witness our 16,000,000 public officials reduced to a mere fraction thereof. All but a few would return to that wonderful status of *self-responsible* citizens—America's miraculous performance on the go again.

• *True glory consists in so living as to make the world happier and better*  
How do we live to make others happier and better? Here are a few guidelines, mostly gleaned from others:

A desire to stand for and staunchly to abide by what is believed to be righteous—seeking approval from God, not man.

Strive for that excellence in the understanding and explanation of

freedom which will cause others to seek one's tutorship. This brings happiness to both the striver and the seeker—and the world!

Live with zest and enthusiasm. Nothing great was ever accomplished in the absence of such spirit.

Be optimistic. This does not mean a blindness to dictocrats lording it over us. Rather, it is self-assurance that a turnabout is in the offing. The world is not going to the dogs as the prophets of doom proclaim. Optimism increases happiness for it is contagious.

If we would make the world happier and better, we might well heed these words by Albert Camus when accepting the Nobel Prize in 1957: "In all the circumstances of his life, the writer can recapture the feeling of a living community that will justify him. But only if he accepts as completely as possible the two trusts that constitute the true nobility of his calling: the service of truth and the service of freedom."

To serve truth and freedom is as high as we can go. When more of us than now attain this intellectual and moral height, the path toward glory will open:

Glory to God in the highest, and on earth peace, good will toward men.

# The “Invisible Hand” or the Heavy Hand?

IT WILL COME as no surprise to readers of the *Freeman* that the national debate over inflation, recession and unemployment rests on a more fundamental issue—what kind of economic system will work best for America? Should it be a continuation of the free-market, capitalistic system which meant unparalleled growth and wealth in the past, or a centrally planned economy directed by government?

There is a superficial plausibility to the argument for central planning. The public is generally inclined to leave problems of national scope to government and to assume that centralized authority is either desirable or inevitable. Looking on the surface of things, people gener-

ally think no further than the immediate effects and short-term benefits of government action. Beset and buffeted by the workings of the marketplace, they are taken in by the promise of ideal government action to correct the shortcomings of the market, and they forget that government promises often exceed the results.

In contrast, economic thinking shows that there is good reason to believe that government action can be counterproductive. Economic thinking goes beyond the immediate, visible impact of a policy to foresee the longer-range, secondary effects. And it can recognize the real as opposed to the promised results of a government policy which is based on a misunderstanding of the workings of the market economy.

For example, government-

---

Mr. Montgomery is a newspaperman and writer on socioeconomic issues who lives in Closter, N.J.

imposed price controls would seem to offer protection against inflation. But powerful economic forces come into play and cause widespread shortages. Then, government must intervene again. Rationing is imposed. The result of that is the rapid growth of black markets.

What's more, there is a conflict between successful politics and sound economic policy. Politics can work to serve the interests of powerful pressure groups rather than the general public.

### **An Invisible Hand**

Two centuries ago the first great economist, Adam Smith, explained the operation of the free market by saying it was as though there were an invisible hand directing the efforts of everyone—even though each was pursuing his own gain—in a way that promoted the interests of society as a whole. And that is essentially what the advocates of a free market are saying today, leaving themselves open to the charge that they are clinging to an archaic notion which no longer applies in modern times.

Smith's great work, *The Wealth of Nations*, came out in the watershed year of 1776. The industrial revolution was just under way and it was a time of pervasive regulation of production and trade by the king and Parliament. Smith was arguing for a laissez-faire, hands-off policy by

government. But it wasn't that he thought the invisible hand was tugging on puppet strings to guide each producer, merchant and trader. Smith believed that economic affairs were self-regulating, that internal order was inherent in the competitive market process to the extent that it was free of government intervention. He saw an order which, in the words of his contemporary Scottish philosopher, Adam Ferguson, was the "result of human action but not of human design."

In the two hundred years since Adam Smith, economics has developed in many directions. But for our own time only the economists of the so-called Austrian school, named for the place of its beginnings a century ago, have contributed much to that concept of Smith's. In particular, Friedrich Hayek, Nobel Prize winner and dean of the Austrian economists of today, has drawn on the work of his great teacher, Ludwig von Mises, to address the idea repeatedly over the past 40 years or more. Mises, Hayek and younger "Austrians," mostly in the English-speaking world, have built on Smith's concept in fundamental ways to show how it can apply to the vastly more complex economy of today.

In attempting to describe some of those ideas here, largely from Hayek's writings, only the essence of the market process will be focused



on. Major forces and mechanisms will go unmentioned and the picture will be somewhat abstract and idealized. But if the advocates of central planning can rhapsodize over the economic utopia to be realized if their designs are carried out, then there would appear to be good reason to portray the workings of a truly competitive market economy, free of the distortions and constraints imposed in these times of big business, big labor and, most of all, big government.

Hayek restates Smith's concept by saying that the coordination of individual efforts in society is the result of an immensely complicated mechanism which exists, works and solves problems but is not the result of deliberate regulation. Or, as he puts it, "The spontaneous interplay of the actions of individuals may produce something which is not the deliberate object of their actions but an organism in which every part performs a necessary function for the continuance of the whole, without any human mind having devised it."<sup>1</sup>

### **General Rules of Order**

The "ordering forces" in such social formations are the general rules for the behavior of individuals in a society. Not that these rules are laid down by the architect of a master plan, or that the rules dictate what each person must do. Rather, the

rules are largely negative, prohibitions against certain forms of behavior. Each person knows what he must not do but is left free to choose what he will do from all the remaining alternatives. What these common rules give rise to are patterns of human behavior, a certain range of actions and an over-all order in society.

Such common rules have come down through the ages, passed on in the cultural traditions of human societies, and represent the accumulated experience of mankind. They have shaped the spontaneous order in human affairs which is now widely recognized in such social institutions as language, law, morals, writing and the use of money. In these cases it is no longer argued that they are the work of inventors, legislators or bodies of wise men.<sup>2</sup>

In certain ways the idea of central economic planning dates back to Mercantilism, which was dominant in the 17th Century and then went on the decline as capitalism began to take shape. Its economic assumptions were finally put to rout by Adam Smith, but not before England's Mercantilist policies had goaded the American colonies to revolt. Mercantilism held that the purpose of economic life in a nation was to serve and advance national power; accordingly, it was the right of government to control economic affairs. Throughout that period, the

trading nations of western Europe were engaged in commercial warfare with each other, in the struggle drawing on the resources of their colonial possessions without regard to the interests of the colonists and native inhabitants. The most intense international rivalry was in foreign trade, which yielded gold—the source of national wealth and power.

In mobilizing its assets and people in the international struggle, each nation tried to promote a forced growth of its domestic economy, particularly in the small-scale manufacturing of the time and the production of goods and commodities for export. Despite the embryonic state of economic knowledge, each nation resorted to a planned economy, which gave rise to an overgrown thicket of regulations, trade restraints, currency manipulation, impoverishing controls over wages and the movement of labor, grants of monopoly privileges, and subsidies to favored industries. The similarity of the extensive intervention in the economy by the modern welfare state in pursuit of its social goals has suggested the name of neo-Mercantilism.

### **Utopian Socialism**

But it is not so much that today's advocates of central planning want a return to Mercantilism. Their sustaining vision came along a bit la-

ter, early in the 19th Century. And it was a vision which has had enormous influence, inspiring generations of social scientists, writers and intellectuals to this day. Its patron saint was an impoverished French nobleman, the Comte de Saint Simon. His followers and successors generated the major part of what came to be known as Utopian socialism. Observing the great accomplishments of the physical sciences in 18th Century France, they sought to develop a social science of society in which everyone in it would be directed by an elite group of philosophers and scientists using their knowledge for the common good.

Then, not long after and building at least in part on their ideas, came Marx and Engels who foresaw the downfall of capitalism in the revolt of the workers of the world to take over the means of production from the capitalists who had exploited their labor. But Marx was far from a mere social visionary. Starting with certain flaws in the classical economics of the time, he built his own system which continues to exert a powerful influence on many economists. This influence can be seen in the insistence by many that central planning is necessary to compensate for "inherent" and "structural" weaknesses in the capitalistic system.

There are other reasons for the

continuing resistance to the idea of a self-regulating economy. For one thing, it took a long time for man to concede that any system with order, function and apparent purpose was not of human design; the belief in central planning may be the last vestige of that reluctance. But, most important for politics and policy today, Keynesian economic theory which has been so dominant since the Thirties plus the development of mathematical models and statistical data which can be fed into a computer seem to offer ways that the economy can be managed.

### **Too Complex for Planners**

In a recent article, Hayek responded to that idea by saying that "the very complexity which the structure of modern economic systems has assumed provides the strongest argument against central planning. It is becoming progressively less and less imaginable that any one mind or planning authority could picture or survey the millions of connections between the ever more numerous interlocking separate activities which have become indispensable for the efficient use of modern technology and even the maintenance of the standard of life Western man has achieved."<sup>3</sup>

But, then, if central planning cannot cope with such complexity, how would the free market do any better? It would, of course, have to

serve such basic economic functions as the allocation of resources, the organization of production, and the distribution of goods and services. But these things cannot occur in a vacuum. Information is required: about the availability of resources, about how production is progressing and whether adjustments are called for, and about what goods and services people want, and how much, of each.

The crux of the matter, as Hayek puts it, is that the necessary knowledge and information does not exist in concentrated or integrated form but solely as dispersed bits of incomplete and frequently contradictory knowledge possessed by different individuals throughout the economic system.

### **Market Pricing**

So, how is this dispersed information to be conveyed to the decision makers, who are also scattered about the system? And how are the decision makers to know what information of potential use to them is out there somewhere, beyond their purview but available for the asking?

In this connection, Hayek has another observation: knowledge comes in two kinds. First, there is the scientific knowledge vital to an advanced technological society. That knowledge would be easily commanded by the experts, and

would even be manageable by the central planners. But then there is the second kind, that important but unorganized knowledge which has to do with the particular circumstances of time and place. Of this latter kind, nearly every participant in the market system possesses knowledge which is unique to his job and location. And, in view of this expertise, who better should make the decisions that that knowledge mandates?

To illustrate the difference between these two kinds of information, Hayek points out how much there is to learn on a new job even after completion of scientific or technical schooling, and how important to any job is the knowledge of the people involved, of local conditions and special circumstances.

### **Response to Change**

And then there is the problem of change. The market must respond with dispatch to change which can occur anywhere in the economic system: a transportation tie-up in and out of Chicago, a craze for sky blue jeans on the East Coast, and so on. Again, decisions are required where the change has occurred and where the knowledge of possible responses is to be found. It is the man on the spot who must decide and take action. But he needs to know more than the facts of his immediate surroundings. He must know something of the big

picture, what is going on out there in the rest of the economic system—so that he can dovetail with the other decision makers and fit in with the workings of the whole system.<sup>4</sup>

If there were no change, at least one of the insoluble problems confronting the central planners would be done away with. They could draw up long-range plans with precise and detailed instructions for the underlings throughout the system to carry out. There would be no need for adjustment to unforeseen events, for adjustments to eventualities which had not entered into their calculations. But, among other things, there would still be the practical impossibility of obtaining and distilling the enormous quantity of information reflecting local conditions in all the interacting sectors of the economy.

Returning to the market economy, it is not enough that knowledge and the ability to act on it be dispersed throughout the economic system. A mechanism for communicating that knowledge is needed. And there is such a mechanism: the price system.

Prices are a numerical index which determines the value of each thing considered for purchase relative to all other things available to each potential buyer, whether producer, consumer or middleman. Thus he can rank the urgency of his needs as a basis for his decisions

without being overwhelmed by all of the information which might conceivably be brought to bear on his choices. Price fluctuations reflect change wherever it has occurred in the market system. The numerical index of prices communicates sufficient information in condensed and distilled form for the market as a whole to be coordinated.

### **Guidelines to Follow**

Hayek illustrates how the price system works as follows: "Assume that somewhere in the world a new opportunity for the use of some raw material, say, tin, has arisen, or that one of the sources of supply has been eliminated. It does not matter for our purpose—and it is significant that it does not matter—which of these two causes has made tin more scarce. All that the users of tin need to know is that some of the tin they used to consume is now more profitably employed elsewhere and that, in consequence, they must economize tin. There is no need for the great majority of them even to know where the more urgent need has arisen, or in favor of what other needs they ought to husband the supply. If only some of them know directly of the new demand and switch resources over to it, and if the people who are aware of the new gap thus created in turn fill it from still other sources, the result will rapidly spread throughout the whole

economic system. This influences not only all the uses of tin but also those of its substitutes and the substitutes of these substitutes, and so on. . . . The whole acts as one market, not because any of its members surveys the whole field, but because their limited individual fields of vision sufficiently overlap so that through many intermediaries the relevant information is communicated to all. The mere fact that there is one price for any commodity—or rather that local prices are connected in a manner determined by the cost of transport, etc.—brings about the solution. . . .

"We must look at the price system as such a mechanism for communicating information. . . . The most significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to take the right action. In abbreviated form, by a kind of symbol, only the most essential information is passed on, and this is passed on only to those concerned. It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications which enables individual producers to watch merely the movement of a few pointers, as an engineer might watch the hands of a few dials, in order to adjust their activities to changes of which they may never

know more than their reflection in the price movement.

" . . . The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; that is, they move in the right direction. . . ."<sup>5</sup>

### **The Entrepreneur's Role**

Austrian economist Israel Kirzner, citing the work of Mises, fills in another part of the picture of the market process. He describes three types of market participants: consumers, entrepreneur-producers and the providers of productive resources, including labor. Again, the key to the process is information, with the market participants starting out in ignorance of each other's intentions and thus unable to join in exchanges as buyers and sellers. Prices estimated and offered are far apart but move closer together as the market process goes on. From the information derived in the process about each other's expectations, the market participants change plans and set new courses.

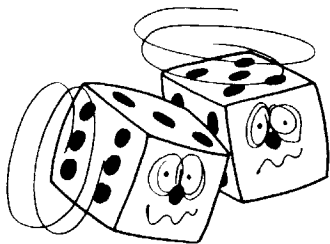
The entrepreneur is the driving force in the process. It is he who is on the alert for places in the economy where conditions for exchange exist

and who seeks profit in the creation of new business, new production methods and new products. And in his activities he conveys information in the form of successive price offers and estimates, nudging the plans of the market participants into closer and closer alignment until an exchange is achieved. In so doing, he exploits and creates change in the discovery of new resource sources, new technical opportunities and new consumer tastes and preferences. And he exploits such possibilities by changing prices, product specifications and selling effort. Impelled by the goad of competition, he seeks to close a deal, secure a resource or penetrate a market sector before his rivals. The result is growth in business activity, in income and employment, and in the supply of new goods and services.<sup>6</sup>

### **Stultifying Bureaucracy**

There is no place in the centrally planned economy for the entrepreneur in search of profit. Bureaucrats are after job security and power in the hierarchy. The search for profits is risky and the bureaucrat must play it safe. Besides, he knows the profits are not for him to keep. Thus, another signal required by the self-regulating economy, profit as indicator of the viability of a business enterprise and guide to the use of resources, is forgone.

And there is no place in the free market system for the central planners whose inflexible designs would stifle the free movement and initiative of those who make it work. Paraphrasing Hayek, planning in a society consciously directed from the top could never begin to utilize all the knowledge and energies bound up in the countless individuals who make up the community. Human resources will waste away while all await their marching orders. ⊕



SOME PEOPLE contend that free enterprise is nothing more than a game of chance—that business profits and losses are purely a matter of luck. Is this true? Are successful businessmen just luckier than the rest of us?

Consider a simple example. Suppose a businessman has net earnings of \$35,000 in a given year. Is that \$35,000 all profit? Not necessarily. If the businessman put his

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### —FOOTNOTES—

<sup>1</sup>F. A. Hayek, "The Trend of Economic Thinking," *Economica*, May 1933, p. 130.

<sup>2</sup>Hayek, "Kinds of Order in Society," Institute for Humane Studies reprint, Menlo Park, Calif., 1975, pp. 6-11.

<sup>3</sup>Hayek, *Morgan Guaranty Survey*, January 1976.

<sup>4</sup>Hayek, "The Use of Knowledge in Society," Institute for Humane Studies reprint, Menlo Park, Calif., 1977, pp. 5-13.

<sup>5</sup>*Ibid.*, pp. 13-15.

<sup>6</sup>Israel Kirzner, *Competition and Entrepreneurship* (Chicago: Univ. of Chicago Press, 1973), chapters 1 and 6.

Brian Summers

## Are Successful Businessmen Just Lucky?

own labor into the business, and if he could have earned \$20,000 working for someone else, the business cost him, in terms of lost salary, \$20,000. If he has \$100,000 of his own capital invested in the business, and the market rate of interest is 10 per cent, his business cost him \$10,000 in lost interest. The businessman made \$35,000 by passing up the opportunity to make \$30,000. His net profit was \$5,000.

Was his \$5,000 profit caused by good luck? If he had earned only

\$25,000, would his \$5,000 net loss have been due to bad luck?

Profits and losses could be attributed to luck only if they were the results of completely random processes—such as the roll of dice. If businessmen randomly selected products and factors of production, we could say that profits and losses were purely a matter of luck.

But if businesses were operated in a completely random manner, there would be no tendency for businessmen to emulate successful competitors. Businessmen would never tend to enter a profitable industry, bid up production costs, and reduce selling prices through increased output. If businessmen depended entirely on luck, they would never adopt the methods of profitable competitors—they would just keep rolling dice.

In the real world, of course, businessmen don't depend on luck. They observe competitors and try to learn from their successes and failures. Successful businessmen are not gamblers; they are alert followers of market trends who use their specialized knowledge to anticipate future trends.

But what about innovators who try out new products and new techniques? Aren't they gamblers?

Even the boldest innovators don't randomly select products and factors of production. They know that to make profits they must please consumers while minimizing costs. Thus, they study the market, perform marketing research, and try to reduce costs by conserving labor, capital, and scarce resources. If they fail, the losses are theirs. If they succeed, consumers enjoy a better standard of living. Businessmen succeed by correctly anticipating consumer preferences and efficiently using resources to satisfy these preferences.

Luck is a factor only when events are beyond our control. In a free market each person controls his own property, thereby minimizing the importance of luck. When government intervenes in the economy, however, luck becomes more important—because with property subject to government regulation, economic success becomes less dependent on personal initiative and more contingent on the vagaries of politics. ☉

### The First Principle

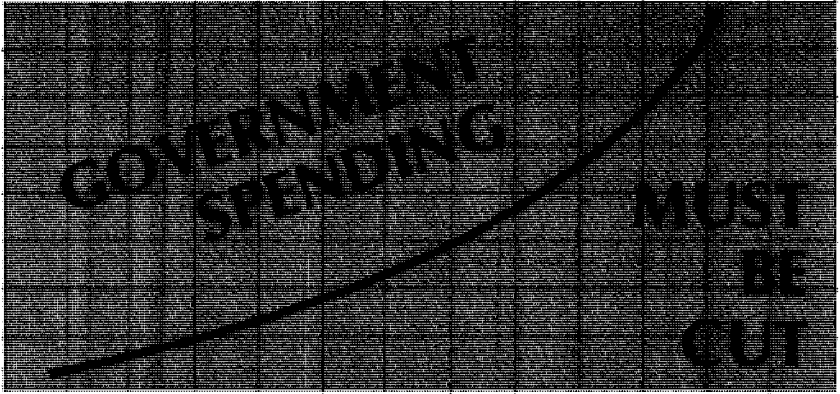
IDEAS ON



LIBERTY

THE FIRST and fundamental principle, therefore, if one would undertake to alleviate the condition of the masses, would be the inviolability of private property.





THE CASE for lower taxes is clear and compelling. Projected federal expenditures total nearly \$500 billion in fiscal 1979 and the budget deficit is expected to exceed \$50 billion. Government spending has risen to the point where its burden is felt throughout the American economy. The three sources of government revenue clearly reveal the strain:

1. For many *taxpayers* the levies are higher than ever before, giving encouragement to tax evasion and outright rebellion.

2. The *capital markets* show signs of utter exhaustion from government

demands, causing interest rates to rise and security prices to fall. There is moaning among stockholders and bondholders, whose savings have been devastated in recent years. But in the body politic they are outnumbered and outvoted and, therefore, constitute no threat to the politicians in power.

3. *Inflation*, the favorite technique of deficit financing, is accelerating again, reducing the real earnings and savings of millions of people. It is potentially more dangerous to the deficit spenders who are resorting to currency and credit expansion in order to finance their favorite programs. But the spenders continue to hide behind the wall of public ignorance that permits them to put the blame for rising prices on merchants

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and industrialists, on physicians and dentists, on anyone and anything making the news.

### **The Burden**

The public is aware, however, that the tax burden continues to grow. Some taxpayers are saddled with levies that are greater than ever before. They are pleading for tax relief and, in many cases, are organizing for tax protest and rebellion. Many victims have reached the limit of their endurance. Others are submerging in the "subterranean economy," where economic transactions are financed by cash and earnings remain unreported. According to some estimates, more than \$175 billion of annual income, or \$3,000 per family, are escaping the IRS bite. And this amount is expected to grow as inflation lifts everyone's income into progressively higher income tax brackets.

### **Moral Strength**

Surely, we feel with the countless victims of government spending that consumes more than one-third of national income. We understand their anguish and sense the enduring morality of the cause of self-defense and man's right to the fruits of his labor. But we doubt that their cause embodies the moral strength for overcoming the spending aspirations of contemporary society. It is haunted by self-interest and projects

*self* as the central figure on the cause of tax rebellion, while government spending continues to draw its political strength from a loud concern for the poor and underprivileged.

Progressive income taxation in itself is an objective of policy in search of social and economic equality. But it is also an inevitable consequence of a social order that bestows expensive benefits on millions of beneficiaries. After all, government has no sources of income and wealth of its own. It depends entirely on its ability to extract the means from its subjects. It must find victims in order to satisfy the clamor for social benefits and programs, government functions and services.

The tax rebellion is a viable political force, but it can become a moral force only with a simultaneous renunciation of the claims to benefits. The public agitation for lower taxes found powerful expression in the overwhelming acceptance of Proposition 13 by California voters—a referendum slashing real property taxes. The California voters gave new life to many other campaigns to secure reduction in federal and state tax rates. But such campaigns skirt the real issue if they focus exclusively on tax reductions. An essential ingredient of genuine relief and a truly successful tax rebellion is a reduction in the size of government. Without it, a tax rebellion could

merely result in changes in form that in the end lack substance. It merely would shift the burden of government from some taxpayers to other victims.

### **Tax Cuts or Spending Cuts?**

Some campaigns focus on the potential for increasing government revenue as a result of tax cuts. The Kemp-Roth proposal seems to suggest that no spending reduction is needed as a companion to tax cuts. Its advocates hold out the hope that their particular tax cuts will revive the economy, cause it to expand, compensate for the loss of revenue with new revenue, and simultaneously reduce the relative size of government. They are promising relief for taxpayers, more jobs to workers, higher profits to businessmen, and more revenue to social spenders.

It may well be true that cuts in certain tax rates would spur economic activity and generate increases in revenue despite the tax cuts. A reduction in the capital gains tax, corporate income taxes, and other levies on capital and business undoubtedly would stimulate economic production. But it is unlikely that the relative burden of government would be permitted to shrink. The temporary loss in tax revenue would immediately be offset by revenue from the capital market, causing interest rates to rise and business activity to con-

tract, or from currency expansion, that is, inflation, causing prices to rise. If, nevertheless, the net effect should be expansionary, government, too, will expand. It may even grow faster than the private sector if the deficit is financed by inflation.

Would the political forces pushing for economic redistribution and more government acquiesce in a smaller share of national income? They managed to extract their present share of benefits from a stagnant economy. Is it not likely they would want an even larger share from an expanding economy?

There is no easy escape from the consequences of an ideology of economic transfer and social conflict. A tax cut as a stimulant administered by government surely does not weaken the position of government. It does not even question the transfer function, but instead adds the role of economic stimulator. A tax cut that is accompanied by a spending cut does effectively reduce the burden and size of government. Therefore, explicit limits on government spending are needed to lend substance to a proposal for tax reduction.

### **The Root of the Evil**


It takes great political courage to confront the root of the evil: the appetite for government services and benefits. Most Americans still believe that government owes them

certain favors, such as income security, public housing and urban renewal, free education and medical care, and so forth. Their call for benefits is an implicit demand that financial means be seized from others. They would not be asking for social programs if they were expecting to cover the costs in proportion to benefits.

Few Americans seek no government favors, and even fewer openly reject them on moral grounds. It is much more popular to seek and accept the benefits of redistribution while objecting to the taxation that covers their costs. Most people freely partake in the economic redistribution, but loudly oppose the necessary allocation of costs. Most professors, for instance, live comfortably on government funds from state colleges and universities, seek federal grants and scholarships, send their children to public schools and colleges, while all along bemoaning their income taxes. They consider the things government does for them as social progress, but decry

their tax burdens as oppression and abuse. Similarly, most physicians applaud their own benefits as social justice, but lament their tax burdens as social injustice. They accept the principle of redistribution and endeavor to get "their share" of benefits, but bitterly oppose their allocated share of costs.

### Social Conflict

A political society that engages in economic redistribution is torn by social conflict. The beneficiaries seek to impose even more levies and restrictions on the victims, who in turn clamor for their share of benefits and lament their obligations and charges. The bitter struggle is waged in the political arena with ever shifting forces and alliances. Victories or reverses are merely temporary, to be followed by new offensives and counter-offensives in a perpetual war for social benefits. To restore social peace and effect a rebirth of freedom, we must cease from preying on each other through government. 

## The Power of the People

IDEAS ON



LIBERTY

THE PRESCRIPTIONS in favor of liberty ought to be leveled against that quarter where the greatest danger lies, namely, that which possesses the highest prerogative of power. But this is not found in either the Executive or Legislative Department of the Government, but in the body of the people, operating by the majority against the minority.

JAMES MADISON



# World in the Grip of an Idea.

Clarence B. Carson

## 24. The Cold War: The Spread of Communism

THE IDEA that has the world in its grip is not as it is billed or the way it is made to appear by those who favor it. It is not fundamentally an economic idea or theory, though that is the guise that it often assumed from the outset. It is not basically a political theory, although it often appears to be, and there is considerable temptation for those who oppose it to treat it in that way. Instead, it is in essence a power theory or idea, a mode for attaining and

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

exercising power. *All its claims and promises are, in the final analysis, but justifications for holding and exercising power.* That is not to say that the attainment or exercise of power is the motive of those who subscribe to or advance the idea. It may or may not be, but that is irrelevant. Rather, the attainment and exercise of power are the unavoidable consequences of the triumph of the idea. Power unlimited is the destination of the victorious idea.

The power motif is implicit in the formulation of the idea that is being used here. There are three parts of the formula:

1. To achieve human felicity on this earth by concerting all efforts toward its realization.

2. To root out, discredit, and discard all aspects of culture which cannot otherwise be altered to divest them of any role in inducing or supporting the individual's pursuit of his own self-interest.

3. Government is the instrument to be used to concert all efforts behind the realization of human felicity and the necessary destruction or alteration of culture.

It is, of course, the use of government which makes it a power theory. But that only becomes clear by further examination of the idea.

The idea that has the world in its grip is not an economic idea. Some of the best economic minds of our era have gone to great lengths to expose the fallacies of Karl Marx. On a lesser scale, some thorough economists have examined in detail, and found wanting, the work of John Maynard Keynes. They did so for good reason, no doubt, because the economic thought of these men was having great impact in the world of affairs.

Despite the fact that Marx engaged in a goodly amount of economic analysis, or economic-like analysis, he was not grappling with the problem of economics. The problem of economics is scarcity, and

Marx denied the validity of the problem, at least in the context within which he wrote. He and Engels wrote these words, in *The Communist Manifesto*: "In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of over-production. . . . And why? Because there is too much civilization, too much means of subsistence, too much industry, too much commerce."<sup>1</sup>

No more did Keynes perceive the problem as being one of scarcity, at least not scarcity of consumer goods. So far as there was a problem it was a problem of insufficient money with which to fuel demand. Hence, his involved and intricate analysis in support of inflation.

### **The Use of Political Power to Distribute Wealth**

John Kenneth Galbraith, an American Keynesian, of sorts, denied the validity of the problem of scarcity in advanced countries. He put his position bluntly: "Given a sufficiency of demand, the responding production of goods in the modern economy is almost completely reliable. We have seen in the early chapters of this essay why men once had reason to regard the economic system as a meager and perilous thing. And we have seen how these ideas have persisted after the problem of production was conquered."<sup>2</sup>

The point is this. The formulators and advocates of the idea that has the world in its grip changed what had once been conceived as an economic problem into a power problem. The problem of production had been solved, they alleged; what remained was a problem of distribution. To solve this problem required the use of political power.

It might be supposed, then, that the idea with which we are dealing is a political theory. It is not. Marx had no political theory at all, certainly not one worthy of the name. He had a power theory to explain what government had been in the past. It had been a means for particular classes to wield power over the masses. When the revolution had broken the power of the classes and there remained only the one class—which is to say no class—the state would wither.

Talk of rule by an elite or dictatorship of the proletariat does not constitute a political theory. In any case, this was to be only a transitional phase before the state withered away; no theory had to be constructed for how the power would be wielded. Lenin and Stalin (and Mao) enthroned the state, apparently perpetually, but their political theory can be reduced to a sentence. Power in the hands of an elite is exercised for the working classes; it requires no restraint so long as it is wielded for the masses. But this, too,

is a power theory, not a political theory.

### **Faith in Gradualism**

Gradualists, evolutionary socialists, social democrats, twentieth century liberals, or whatever they should be called, often appear to have a political theory. On closer examination, however, it turns out that what they have are the residues of earlier political theories and a political faith. By the nature of their methods, gradualists must give at least lip service to the residue of political beliefs in their countries. If they live in a land that has a monarch, they must profess their loyalty to him. If there is a separation of powers, they may give lip service to this arrangement. But they will be observed always to be working to remove these as obstacles to the exercise of power. Monarchs are reduced to ceremonial nonentities. The separation of powers is evaded by the creation of instruments which bypass the principle, or those powers which obstruct are made of little or no effect.

What gradualists have, in the final analysis, is a political faith. Their faith is in an ideologized democracy, which is best called social democracy, though Americans are not much used to the phrase. To be more specific, their faith is in democracy which entails much more than simply the process by which

those who are to govern are chosen. It involves also what the ends of the government shall be. Only that government is democratic, according to their faith, which is moving toward distributive or substantive equality. While they ostensibly favor popular or democratic government, only that government which is socialistic in tendency is truly democratic. Otherwise, it has come to power on too narrow a base or has succeeded in misleading "the people" (by corruptly acquiring campaign funds from wealthy patrons, for example). Therefore, it does not legitimately hold power.

This is a power theory, not a political theory. The means by which those who govern are to be selected has been so entangled with the ends for which government is to act that they have become indistinguishable. The will of "the people" has been determined in advance of any election; it is none other than what has been ideologically pre-determined is for the good of the people, i.e., further redistribution of the wealth, greater direction by government of the life of the people, and more restraints on all independent elements working in any other direction. If an election should turn out differently, it must be because the will of "the people" has somehow been thwarted. Such a theory is a program for the acquisition and exercise of power.

It is doubtful that there can be effective political competition with the idea that has the world in its grip. (The full import of this must await discussion at another point.) If it were a political idea among other political ideas this would not be the case. But it is not. It is a power idea wedded to a seductive and most attractive vision. Political competition gets turned into a contest for power to realize the vision by different varieties of means. It becomes a contest over who could use the power most effectively to realize the vision.

In lands where gradualism holds sway, all political parties tend to be drawn into the contest to administer the programs by which a country is drawn into the maws of socialism. Who can best exercise the power by which the people are controlled is the issue. In communist lands, there is only one political party; hence, the issue becomes a contest between individuals as to who shall exercise the power.

### **The Promises of Socialism**

Power, however, within the framework of the idea, is only a means. It is not the quest for power that makes it so difficult, if not impossible, to compete politically with those advancing the idea. All politics is a contest over who shall exercise power. It is the promises that make competition so difficult. How does one compete with the idea that



all things shall be made right, that justice, peace, prosperity, and felicity shall follow upon their policies? And—and this is the clincher—those who have wronged us from time immemorial shall have their property and wealth taken from them and divided among us.

Gradualists attempt to will out of sight the power by which this is to be accomplished. They do so by trying to hide from us, and perhaps from themselves, the use of force by mesmerizing us into believing that when it is done democratically significant force is not involved. The communists are much blunter. They revel in power but identify it with the people. Theirs is a kind of mesmerism, too, for the personal character of the exercise of power is hidden behind a variety of facades, the most important being that of ideology.

But even the explicit promises do not convey the sweep of the vision that stems from the idea that has the world in its grip. The sweep may not be readily apparent from the opening phrase characterizing the idea, namely: To achieve human felicity on this earth by concerting all efforts toward its realization. Yet it is there, however implicit, and it entails a vision the like of which has rarely, if ever before, been conceived by mortal man. True, the vision of world conquest is not new to our era; it has even been very nearly accomplished within the limited

framework of earlier times. But this vision is in significant ways different from and much more than the vision of an Alexander the Great or Julius Caesar.

### The Temptation of Jesus

It may be best approached by conceiving it as the vision which Jesus rejected when he underwent the temptations prior to his ministry. According to Matthew, following his baptism Jesus went into the wilderness. He fasted for forty days. Then, he underwent a series of temptations. The culminating temptation is the one that concerns us here:

Again, the devil taketh him up into an exceeding high mountain, and sheweth him all the kingdoms of the world, and the glory of them;

And saith unto him, All these things will I give thee, if thou wilt fall down and worship me.

Then saith Jesus unto him, Get thee hence, Satan: for it is written, Thou shalt worship the Lord thy God, and him only shalt thou serve.<sup>3</sup>

The conventional interpretation would be that Jesus was tempted to become an earthly ruler, an emperor over all the earth. But it was surely more than that. Given the circumstances, it does not seem likely that to be an earthly ruler would have been much of a temptation. And we are to believe that Jesus was tempted, was drawn toward the idea. His mood could hardly have been such

that being an emperor as such things are understood would have appealed to him. He had spent forty days in fasting, in contemplation and preparation for fulfilling his mission. How he was to proceed was surely a live question. The temptation was to use power to accomplish *his* mission, not the mission of kings and emperors, but *his* mission.

His mission was to draw all men unto him, a holy, divine, and good mission. Would it not be appropriate to use power—the great force residing in government of an empire—to accomplish his purpose? Why not use the glory of all the kingdoms of the world to draw all men into loving fellowship with one another and union with God? There was a catch, of course. First, he would have to fall down and worship Satan, which is to say, he would have to worship and serve power and force, even as it must be served by those who would use it. Jesus answered him, "Get thee hence, Satan: for it is written, Thou shalt worship the Lord thy God, and him only shalt thou serve." Those who will may learn somewhat of God from that.

### **The Temptation Revived**

The vision which Jesus rejected has been revived in our time. Like the vision which Jesus rejected it is not simply a vision of a world empire or even of world conquest. We mis-

understand it when we read it into the framework of ancient empires, or modern ones either. Momentous changes have occurred in the world since the times of such empires, and since the time when Jesus was tempted. The most obvious of these are the great changes in transportation and communication.

Not only is the whole world now known, but its furthest reaches are available within a few hours by jet airplane, and within moments by radio, telephone, and by television signals transmitted by satellites. A vast array of inventions have made available a technology such as has never before been available to man. There have been developments in thought, too, which have changed the complexion of things. Of particular importance are those in psychology, sociology, and economics. Men once conceived of ruling empires; today it is possible to conceive of total control over the peoples of the world.

What can be, and has been, conceived is a vision of all the instruments of the world brought under a single power, or concert of powers, of all the possibilities known for organizing men to be centrally controlled. That is the end toward which all who embrace the idea that has the world in its grip are driven. Communists press toward that goal bluntly, crudely, and, from the outset, oppressively. Gradualists move

toward it circumspectly, with great outward show of benevolence, and pragmatically. The instruments are there, and the struggle to grasp and control them, and through them all men, is well advanced.

### **An Idea Activated**

Communism was once only an idea. In its Marxian formulation, it was only one idea amongst a goodly number of other socialist notions. But a momentous event occurred in the fall of 1917. The communist idea was joined to power in Russia. The power which Jesus rejected was seized and embraced by Lenin and his fellow Bolsheviks. At that juncture, communism ceased to be an idea only, or even mainly, and became a reality. Those who persist in thinking of communism as an idea will find difficulty in grasping this point. Those who think in this way are inclined to ponder such questions as these. Is Soviet Communism true Marxism? In what ways did Lenin, or Stalin, or Khrushchev alter Marxism? When will the Soviet system pass from socialism to communism?

They are idle questions, of course. They have the same practical import as the question of how many angels can dance on the point of a pin. Lenin put the matter bluntly: "Soviet power plus electricity is communism." It might be better to put it this way, since people get

hung up on his reference to electricity in the equation: At this stage in history, Soviet power is communism. Communism is whatever those in power in the Kremlin, or Peking, or Havana, or wherever, determine that it is. Those who do not live in those lands are free, of course, to discuss such questions as those above; those who do live in them have no such happy options. Communism is what the powers that be say it is. But such discussions do not alter the reality which is proclaimed as communism.

My meaning might be clearer if put this way. Prior to November of 1917 communism was only a fantasy. When the Bolsheviks seized power, the fantasy became a reality. A change, big with future portent, occurred. The fantasy produced a new reality, the reality of communism in power. Communism in power became, for all practical purposes, communism. If Soviet power is communism, the reverse is also the case, and it may be phrased this way: Communism is power. Not yet the only power in the world, but the intention becomes clear when we understand that the aim is for communism to become all power, and the only power. The idea is the driving force toward total power, but it is not something distinct from the power, not in Marxian terms; it has become power.

Power is central to communist

thought and action. "The scientific concept of dictatorship," Lenin said, "means neither more nor less than unlimited power resting directly on force, not limited by anything, nor restrained by any laws or any absolute rules."<sup>4</sup> "When the idea enters the mind of the masses," Marx said, "it becomes a power."<sup>5</sup>

### World Conquest

From the outset, it was the aim of Soviet Communist leaders to extend this power over the world. Lenin declared that "the existence of the Soviet republic side by side with imperialist states for a long time is unthinkable. One or the other must triumph in the end. And before that end supervenes, a series of frightful collisions between the Soviet republic and the bourgeois states will be inevitable."<sup>6</sup> Stalin said, "The victory of socialism in one country is not an end in itself, it must be looked upon as a support, as a means for hastening the proletarian victory in every other land. For the victory of the revolution in one country . . . is likewise the beginning and the continuation of the world revolution."<sup>7</sup> In an even more famous statement, Khrushchev blustered, "Our firm conviction is that sooner or later capitalism will give way to socialism. No one can halt man's forward movement, just as no one man can prevent day from following night. . . . Whether you like it or not,

history is on our side. We will bury you."<sup>8</sup>

Although the entry of Red China has brought about some differences in the communist camp, the Central Committee affirmed its commitment to the overall aim in these words:

The Chinese Communists firmly believe that the Marxist-Leninists, the proletariat, and the revolutionary people everywhere will unite more closely, overcome all difficulties and obstacles, and win still greater victories in the struggle against imperialism and for world peace and in the fight for the revolutionary cause of the people of the world and the cause of international communism.<sup>9</sup>

The spread of communism around the world is one of the most remarkable, if not *the* most remarkable, developments of the twentieth century. Communism has now spread into every country in the world. I do not mean simply that communist ideas have been spread in every country in the world. That is obviously the case. There is surely not a major library in the world that does not have some books or compendiums of the teachings of Marx, Lenin, Mao, or others. It would hardly be possible to teach a course on twentieth century history without summaries of and probably quotations from various communists, and the same goes with greater or lesser validity for philosophy, economics, political science, and sociology. Nor

is it simply the case that educated people must be in some degree acquainted with communism. It is also the case that amongst those who are illiterate, or barely literate, there must be few who have not picked up and embraced some of the communist doctrines.

### **A Universal Movement**

Ideas know no boundaries, and there is enough within Marxism that is universal to assure us that almost everyone holds or has encountered at least some of the notions that have place in the ideology. In any case, twentieth century transportation and communication make it almost inevitable that all sorts of things are spread around the world, quite often with great rapidity.

Something much beyond the spread of ideas has taken place. Communist power has spread around the world and into every country in the world. That is what is remarkable. The Bolshevik seizure of power in Russia was the prelude to the extending of the tentacles of that power into every land in the world. The meaning and import of this is not readily grasped. Our modern notions of diplomacy, of national sovereignty, of international relations, and of political theory provide no categories with which to conceive it. Even the conception that communist power extends itself by a

conspiracy to take over the government is much too confined and narrow a concept. For when I say that communist power has already spread into every land, I mean to convey the understanding that it is already there and operating, not that it may some day overturn the government. The presence of communist power in every land has already reduced national sovereignty and is contesting over the monopoly of that power.

### **Secret Police as the Arm of Soviet Power**

The manner of the spread of communist power may be best explained by the description of the power mechanism of the Soviet Union. It is true that today there is a communist power independent of the Soviet Union—Red China—but the Soviet Union has much the longer history and has served as the model for all communist exercise of power. (Indeed, the ideological struggle between the two has been highlighted by differences over Stalinist tactics, championed by the Chinese, and downgraded by the Russians.)

Soviet power is exercised by and concentrated in the secret police. The secret police have been called by many names over the years—CHEKA, GPU, NKVD, MGB, and KGB—, but their role has remained constant since the beginning. Today, the KGB is supplemented by the

GRU, which is the military branch of the secret police. John Barron has described the role of the KGB this way:

. . . In everything it does, within the Soviet Union and without, the KGB thinks of itself as being the "Sword and Shield of the Party," and this is probably its best single definition. For the KGB serves not so much the Soviet state as the Communist Party and, more particularly, the small coterie of men who control the Party. It is the sword by which Party rulers enforce their will, the shield that protects them from opposition. The characteristics of the KGB which distinguish it from other clandestine organizations, past and present, all derive from the inordinate dependency of the Party oligarchy on the force and protection it provides. Because preservation of their power depends so on the KGB, the Soviet leaders have vested it with resources, responsibilities, and authority never before concentrated in a single organization.<sup>10</sup>

The secret police serve not only as the arm of Soviet power within Russia but also around the world. They are present in all countries of the world, always undercover, on embassy staffs, in legations, or engaging in any number of other operations. The gathering of intelligence from foreign countries is one of their major activities, of course. But beyond that, they use whatever means are available and necessary to enforce the will of the Kremlin on all who fall under the sway of com-

munist. They are the invisible mechanism of communist power.

### **The Role of the Party**

The visible mechanism of communist power in any land is the communist party. Its presence in any country is the sign that the revolution has begun. Its task is to proclaim the revolution, to arouse discontent, to draw into its fold adherents who can be trained and disciplined, and, when the time comes, to provide the personnel for taking over the power of government. Although much party activity is undercover, and party membership is usually kept secret, the party is itself a cover. It is a cover for the foreign character of the communist intrusion. It provides what appearance there can be that communism is a native movement. Yet these communist parties have generally been captive parties, instruments of foreign powers who controlled them.

Elizabeth Bentley, who was for several years a communist espionage agent in the United States, says that Earl Browder, then head of the American Communist Party, was fearful before and but a figurehead for the Soviet powers.<sup>11</sup>

The size of a communist party is not usually a crucial factor. No party anywhere has ever come close to including a majority of the electorate. Nor would such a large, unwieldy, and undisciplined party be

considered desirable. Not politics but power is the object of communism. Leverage is the principle on which communists gain and occupy power. If a majority were to vote for a communist candidate or for a party slate, leverage would be gained by a small minority, usually within the party.

In any case, conditions are supposed to provide the setting for communists to come to power, not numbers. To Marx, the conditions were supposed to be provided when capitalism had reached a certain stage. For Lenin, and his successors, the conditions were right at any time when a government became sufficiently irresolute, weak, or divided and confused in its counsels. Any number of things can produce such conditions: military defeat, military conquest, civil war, political elections, terrorized officials, and so on. It is at this juncture that the resolute and disciplined party plays the decisive role at the forefront of revolution.

### **Post-War Expansion**

In the countries of eastern Europe the conditions for a communist take-over were right by way of military defeat and the presence of the Red Army after World War II. Soviet leaders had carefully nurtured the communist parties of these nations during the war, had even provided a place of exile for them in

the Soviet Union. Although there were variations from land to land, Hugh Seton-Watson says that in general the take-over went through three stages:

In the first phase government was by a genuine coalition of parties of left and left centre. The coalitions in all cases included communist and socialist parties. . . .

In the second phase government was by bogus coalition. Several parties still nominally shared power and possessed independent organisations: but their leaders were in fact chosen not by them but by the communist leaders, and the policies of the coalitions were determined by the communists. . . .

In the third phase the bogus coalitions were transformed into what the communists like to call a "monolithic block." The communist leaders not only laid down the lines of policy, but centrally controlled the organisation and discipline of the non-communist groups that were still left in the governments. Socialist parties were forced to "fuse" with communist parties. No more political opposition was tolerated in parliament, press or public meeting.<sup>12</sup>

How this power was seized is particularly instructive:

Already in the first phase . . . the communists seized certain key positions. The most important of these was the Ministry of Interior, which controlled the police. . . . The Ministry of Justice, controlling the formal judicial machinery, was considered less important, but was held by communists in certain cases. Control of broadcasting was seized at an

early date. Great efforts were made to control and to create youth and women's organisations. In industry, communists were placed in key positions in the management of nationalised factories and in trade unions.<sup>13</sup>

These were, as Seton-Watson says, the "Levers of Power."

### **Indoctrinating and Training the Communist Cadres**

Sometimes within the secret police, sometimes within the parties, but always the strength and power of communist organizations are what are called the "cadres." The term "cadre" is taken from military usage, where it refers to those who are assigned the task of indoctrinating, training, and disciplining military forces. They are the dedicated communists, those who have been most thoroughly molded, trained to absolute obedience to the powers over them.

"The ideal type of the Communist," Frank Meyer said, "is a man in whom all individual, emotional, and unconscious elements have been reduced to a minimum and subjected to the control of an iron will, informed by a supple intellect. That intellect is totally at the service of a single and compelling idea, made incarnate in the Communist Party: the concept of History as an inexorable god whose ways are revealed 'scientifically' through the doctrine and method of Marxism-

Leninism."<sup>14</sup> The "cadres" consist of all those who have been most thoroughly molded into this pattern. It is the cadre, not the formal party, Meyer pointed out, that is competent to the task that Stalin assigned the party, namely, "the only organization capable of centralizing the leadership of the struggle of the proletariat, thus transforming each and every non-Party organization of the working class into an auxiliary body and transmission belt linking the Party with the class."<sup>15</sup>

These, then, are the main instruments for applying power. Applying power on what? In answering this question we come to the heart of communism as power. So far as communism is a power theory, it is a theory of the exercise of power by a tiny minority over the whole of peoples. How is it done? It is done by occupying pivotal positions in organizations. It is important to understand that any organization will do for the purpose, any organization that has people under its control in any way: police, armies, churches, corporations, businesses, clubs, political parties, governmental units or whatever. Those who think of "communist front" organizations as only facades mistake the principle. They may be facades and covers so far as the ultimate purpose is concerned. But they are as important to communism as they would be if they revealed their purpose completely,



for they are instruments of the revolution in progress.

### **The Organizational Structure**

The spread of communism proceeds, then, by the creation, penetration, and infiltration of organizations. Otto Kuusinen, one of Stalin's men, described a part of the process this way in 1926, "We must create a whole solar system of organizations and smaller committees around the Communist Party so to speak, smaller organizations working actually under the influence of our party. . . ." <sup>16</sup> Willi Muenzenberg, considered somewhat of a theoretical genius on communist movement by way of organization, declared: "We must penetrate every conceivable milieu, get hold of artists and professors, make use of cinemas and theatres, and spread abroad the doctrine that Russia is prepared to sacrifice everything to keep the world at peace. We must join these clubs ourselves. . . ." <sup>17</sup> The eventual aim can be deduced: it is either to destroy or to control all organizations within a society. It is only when there is no longer an independent organization, or an independent person, that the triumph of communism is complete.

An analogy may help in grasping the mode of the spread of communism. From where I sit, I can see across the road to a field covered with Kudzu. Not so many years ago most of the area covered by Kudzu

was a cultivated field. I do not know how the Kudzu got started there. How it got started in this part of the country is not a mystery, however. It was deliberately set out. If memory serves, it was recommended by agricultural experts as a means of stopping soil erosion. (The government may even have provided the seedlings without charge, or for a nominal price.) It does stop soil erosion in those areas to which it spreads, but it does much more than that.

Kudzu is a vine, for the information of those unacquainted with this ubiquitous plant. It is a perennial on which large leaves grow in season. Indeed, Kudzu is a pretty enough plant, such a vine as an innocent person might set out to provide shade over an arbor. But it has a monstrous trait. It spreads. And spreads. And spreads. It can only be stopped from spreading by uprooting it, although it will not directly cross a well traveled road. And it chokes out all plant life over which it spreads. The cover of leaves is so thick during the season that plants depending on the sun to carry out photosynthesis, which is to say all non-parasitic plants, must succumb. Even large trees in its path must eventually be overcome by it. No independent plant life can co-exist with it.

Being across from it on a well traveled road is no protection, however. Kudzu produces seeds which

can be blown across the road by the wind. That must have happened already to my neighbor, for some sturdy vines have taken root there. If it is not nipped in the bud, so to speak, it will spread over that land, and from thence to wherever it can, covering and crushing out all plant life as it goes. Kudzu is a power plant, as it were, and moves relentlessly to become the only power.

Communism is analogous to Kudzu in its spread over the world. But communism is not a plant; it is an idea. It is idea joined to power. It is spread not by the wind but by terror. That aspect of it needs now to be examined. Ⓢ

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Next: 25. *The Cold War: Terrorizing Many Lands.*

### —FOOTNOTES—

<sup>1</sup>Eugen Weber, *The Western Tradition* (Boston: D. C. Heath, 1959), p. 609.

<sup>2</sup>John K. Galbraith, *The Affluent Society* (Boston: Houghton Mifflin, 1958), pp. 319-20.

<sup>3</sup>Matthew 3:8-10 (KJV).

<sup>4</sup>John Barron, *KGB: The Secret Work of Soviet Secret Agents* (New York: Bantam, 1974), p. 2.

<sup>5</sup>Frank S. Meyer, *The Moulding of Communists in Omnibus Volume 3* (New Rochelle, N.Y.: Conservative Book Club, copyright Harcourt, Brace and Co., 1961), p. 25.

<sup>6</sup>Quoted in M. Stanton Evans, *The Politics of Surrender* (New York: Devin-Adair, 1966), p. 26.

<sup>7</sup>*Ibid.*

<sup>8</sup>*Ibid.*, p. 27.

<sup>9</sup>John W. Lewis, ed., *Major Doctrines of*

*Communist China* (New York: Norton, 1964), p. 279.

<sup>10</sup>Barron, *op. cit.*, pp. 9-10.

<sup>11</sup>See, for example, Elizabeth Bentley, *Out of Bondage in Omnibus Volume 6* (New Rochelle, N.Y.: Conservative Book Club, copyright Devin-Adair, 1951), pp. 125-26.

<sup>12</sup>Hugh Seton-Watson, *From Lenin to Malenkov* (New York: Frederick A. Praeger, 1953), pp. 248-49.

<sup>13</sup>*Ibid.*, p. 255.

<sup>14</sup>Meyer, *op. cit.*, p. 15.

<sup>15</sup>Quoted in *ibid.*, p. 14.

<sup>16</sup>Quoted in Eugene Lyons, *The Red Decade* (New Rochelle, N.Y.: Arlington House, 1970), p. 47.

<sup>17</sup>*Ibid.*, p. 48.

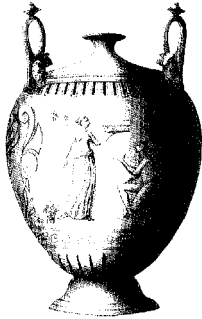
### Elbert Hubbard

IDEAS ON



LIBERTY

THE weaknesses of the many make the leader possible—and the man who craves disciples and wants followers is always more or less of a charlatan. The man of genuine worth and insight wants to be himself; and he wants others to be themselves, also.



## Native Pottery Only

THE CIVIL WAR had just begun. The nation's new President, Abraham Lincoln, had received the news of the bombardment of Fort Sumter with a great deal of trepidation. Now it was his turn to act. But what to do? How best to meet this challenge to the armed might of the United States of America? Shortly after the news of Fort Sumter reached Lincoln, he had closeted himself in conference with the venerable hero and Chief of Staff, General Winfield Scott. As usual, Scott had some answers.

One of Scott's solutions particularly struck home with the new president. During the course of their meeting, General Scott had repeatedly emphasized the necessity of forming a naval blockade of all the Southern ports in order to isolate the fledgling Confederacy and cut off their foreign trade. And, while this would be an expensive

maneuver involving hundreds of ships and thousands of men, it would be essential in weakening and curbing as quickly as possible the armies of the rebellion.

The reasoning behind this was very simple: besides being the oldest tactic in military history—tried, tested, and proven—it stood to reason that the fewer imports a nation (or city) receives from outside sources the worse off it becomes economically and, thus, militarily. Military experts had always realized that trade and commerce were the lifeblood of a nation and that the sooner it could be stopped the better it was for the opposing side. Such a blockade, Scott realized, would spell doom to the enemy.

So on April 19, 1861, Abraham Lincoln, along with General Winfield Scott, devised the blockade that would be put into effect as soon as possible. This plan, which later became known as the "anaconda plan," was to prove instrumental in crush-

ing the life out of the vibrant Southern economy. In no time at all Admiral Porter of the Union navy had put the paper plan into effect. He would make the South writhe and groan until they would eventually have to sue for peace. In later years the Supreme Court declared the "anaconda plan" as the official beginning of the War Between the States.

As the Union ships were engaged in the vital task of squeezing the enemy dry, what were the President and the Congress doing back home? Why nothing other than devising elaborate and prohibitive tariff schedules in order to keep the "invasion" of "foreign" products out of the Union! Imports would surely destroy the Northern cause, they reasoned. What the North needed most of all was "protection." So while Union ships blockaded the South by sea, the honorable Congress was doing the same thing to the North at home. What Southern sea captains could never once accomplish in four years of war, the Congress did for them in a matter of weeks by political action.

### **The Blockade of the North**

Barriers to trade rose higher than ever before in the attempt to "protect" the North. Confederate ships were therefore freed to prowl the lanes further out on the high seas since the boys in Washington were

doing such an admirable job without them. They could now have more leisure to ferret out those few merchantmen who were officially allowed through the lines. They could also find more of those who simply chose to bear the risks of smuggling goods into Yankee ports and hamlets. In this respect Confederate vessels actually found themselves as enforcers of the Congressional mandate of restricted trade! Confederate raiders made no distinction between "legal" or "illegal" trade.

What is often neglected in the history of the Civil War is not the "blockade runners" of the South who have received plenty of plaudits for their daring exploits, but the "blockade runners" of the North who had their work cut out for them by attempting to slip the blockade of the Northern coast by Northern ships and customs agents that their own Congress had imposed upon the country at the very beginning of the war.

Apparently the logic of the situation never once dawned upon the President or the Congress that acted so hastily to put his economic plans into effect. If the North was "protecting" Union industry from the evil effects of international trade by Congressional action, wasn't it doing the same by anchoring warships off Southern ports for better than three thousand miles? The story of Haman, who unknowingly

built his own gallows, could not have been more ironic!

And when the tariff blockade seemed to be developing leaks, Congress merely tightened the garrote a bit tighter around the North's windpipe, thus choking off needed manpower and supplies which Europe had to offer. All the while this little tragi-comic charade was going on, there were actually Union leaders who felt that more warships were needed to blockade the South in order to catch the blockade runners who were slipping through the net.

What the Congress should have done in order to be consistent with their own untenable economic doctrines would have been to recall every Union ship, scrap the blockade, and let the South kill itself from the "invasion" of "foreign" goods which would surely "glut" the domestic market, thus "flooding" the Southern economy with products which would destroy business and bring the war to a hasty conclusion!

Fortunately for the North, the Union navy was more efficient in destroying the Southern trade than the Congress was in choking off Union supplies. But try as they might, the politicians in the capital could not outshine the navy on the high seas. It is true that the solons inflicted incalculable damage upon the Northern market during the course of the war. But the few

Northern ships that were assigned to blockade the Northern coast simply could not inflict the kind of damage to Union-bound shipping that their more numerous colleagues assigned to block the Southern coast could inflict upon the South. As a result, the North floundered along without the full benefits of trade with a Europe that was more than willing to provide the materials so desperately needed to terminate the war.

### Continuing War on Trade

Most historians dwell at great length upon the comparative advantages of the North over the South during the Civil War. That which usually receives the greatest emphasis is the higher productivity and resources of the North. And while all this is true, it fails to consider the resources and productivity *that could have been available* had free trade been allowed. In effect it is not so much the pounding that the South gave the North during the war, but rather the pounding which Congress gave the North, by depriving itself of the benefits of free trade, that deserves more attention.

Today warships continue to prowl the coastlines and to ply the lanes of commerce in order to "shield" the nation from the "invasion" of Australian beef, Japanese steel, and so forth. Even in this modern age the old trade-is-war doctrine continues

to guide national policy. The United States continues to look at "foreign" goods as a calamity to be avoided at all costs. Recent broadsides against the market prove that the spirit of tyranny and war still lives in the hearts and the minds of the "planners" and policymakers. These bombasts seem to come ever closer to the waterline of the market and its functions. Yet, in spite of it all, the market continues to operate—if at a much reduced level of efficiency.

This attempt to bring the economics of warfare to the market has resulted in untold misery for all of mankind who stand to benefit from the cosmopolitanism of the free market. This perpetual assault on trade and the well-being it brings has offered, instead of a vast cornucopia of wealth, the specter of the pale horse and the pale rider of war and man-made famine. The doctrine of "protectionism" has never resulted in anything other than planned chaos. Nor is this a doctrine that has sprung up full grown from the ashes and motivations of the War Between the States. As far back as the days of the Greek Herodotus in the fifth century B.C. we are told that it was against the law for anything that was of Athenian origin to be brought into a certain Greek temple. Only "native" pottery would do. "Protectionists" were alive and well in his day too.

It is no different in our day. We still hear arguments about the "evils" of "foreign" products, arguments which were exploded by economists generations ago. We still hear preached as official ideology the tragedies and horrors of allowing the market to "flood" us with a "glut" of "cheap" goods which the international (foreign) market has to offer. We see farmers blocking roads on the Mexican border, attacking trucks as policemen stand by and sympathetically witness the carnage. We see organizations of such men who call themselves "soldiers" (in the true spirit of warfare) pleading for "sympathy and understanding" from their fellow citizens. We hear the neat little cliches that are intended to take the place of ideas and intelligent thought. We hear the martial strains of propaganda telling us to "rally round the flag." After all it is "Our America."

The tones and pleas of the petty provincialists of trade restriction have not changed one bit over the eleven decades since the Civil War. Neither have the effects of their policies which continue to be a blight upon men and an assault on intelligence wherever and whenever such doctrines are implemented. The war on the market—and thus civilization—goes on.

Native pottery only, please!



# AUSTERITY, WASTE, and NEED

IN recent years U.S. citizens have been encouraged to waste less and adopt a more austere life style. We have been chastised for our energy-intensive habits. We eat meat instead of cereals; we drive large cars, drive when we could walk, keep our homes warmer than needed, and engage in many other "wasteful" practices. More generally, U.S. citizens have been criticized for the use of luxury goods and for using a disproportionate amount of the world's resources.

There is a great deal of concern about the ability of reserves of fossil fuel and other resources to support projected levels of population. Extrapolation of current trends in resource use in the *Limits to Growth*

and other "Doomsday Models" lead to the specter of the world grinding to a halt within the next century or so as currently known resources are depleted. What should be our posture toward the use of energy in the production of agricultural and industrial commodities? What is the appropriate approach to take toward legislation mandating mileage standards for automobiles, mandating insulation standards for home and office buildings, banning the use of cereals for livestock feed, and so on?

Conventional wisdom holds that we should eliminate waste in the use of gasoline, electricity, and other resources. The concepts "need" and "waste," however, are far more complicated than the widespread use of these terms suggests. The philosophy of austerity rests on an insecure basis and leads to measures that are harmful and contradictory. This essay explores the meaning of

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"waste" and "need" and compares the effects of market and non-market rationing procedures.

### **Waste and Need**

During the energy crisis following the OPEC oil embargo, individuals were encouraged to reduce waste in the use of food, energy, and other raw materials. The same pleas were heard again in the winter of 1976-77 during the fuel crisis. If individual citizens are to respond intelligently, they must be able to identify waste.

The concept "waste," however, has little or no objective content and appears to be closely related to the term "need." Furthermore, the concept of "need," is meaningless as a guide in determining one's consumption pattern. It is impossible to define objectively the goods and services we "need." How much meat, housing, heating fuel or gasoline, for example, do we "need?" The concept "need" implies that, regardless of price, there is some minimum amount of meat, housing, heating fuel, or gasoline (or any other good or service) that is essential to our livelihood. We observe, however, that people reduce consumption when relative price rises for any good or service including gasoline, coffee, meat, and housing.

The amount "needed" of any good depends on the price of that good relative to the price of other goods. The "need" of Jones for coffee de-

pends on his subjective valuation of coffee and coffee substitutes. It is an illusion of bureaucrats and consumerists that the U.S. Congress, the Federal Energy Administration, or Ralph Nader can determine our individual "needs." Even we as individuals can only determine our own needs in the sense that we decide how much we prefer at given prices. When the relative price of a good changes, however, our "needs" change in the sense that we prefer to purchase more or less of the good. There is no known example of any good where the quantity purchased remains the same when there is a large change in its price relative to the prices of other goods.

The concept "waste" implies that amounts of a product which exceed our "needs" level provide no additional satisfaction. If this were in fact the case, amounts of the product above this "needs" level could be removed at no loss of satisfaction to the consumer. When we investigate commonly cited examples of "waste," however, we find that the goods presumably wasted are, in fact, contributing to consumer welfare. If the goods alleged to be wasted were providing no satisfaction, coercion would not be required to reduce use.

The use of the family auto provides a good example of the point being made. It is frequently alleged that the typical motorist wastes gasoline by using his auto when it



isn't "needed." We observe that people drive their car when they could walk, ride a bicycle, or form a car pool. This fact that people use their car when alternatives are available doesn't mean that the use of gasoline used in this way is "wasted."

There is no denying the fact that auto users could get by with much less use of the auto. The fact that motorists *could* reduce auto use however, does not imply that it is in their interest to do so. Each motorist will act in the way which is most beneficial to him given the costs and benefits of various alternatives as they are perceived by him. Consumers respond to relative transportation costs in deciding where to live, how to get to work, where to vacation, and the like.

We observe that motorists economize in numerous ways when costs of auto travel increase. As gasoline prices increase, for example, there is substitution in favor of smaller autos, more bicycling, more car pooling, shorter vacation trips, and so forth. The fact that less gasoline is used when price increases does not mean that the larger amount used at the lower price was "wasted." One might, to the contrary, argue that at a lower price larger numbers of consumers are able to benefit from a particular good or service, and therefore a lower price is an efficient means of

effecting a widespread distribution of some item of value.

People economize in the use of scarce resources in responding to their own self-interests. This does not mean that all people respond to a change in prices in the same way. We expect individuals to make different accommodations to any change in relative prices reflecting their own unique situation and preferences.

The preceding discussion implies that there is no objective basis by which an outside observer can determine the amount of gasoline any particular motorist "needs." If "needs" cannot be objectively determined, decisions made to limit use through administrative controls must be arbitrary and capricious.

### **Relative Prices vs. Need**

It has become fashionable in recent years to suggest that people in the U.S. and other highly developed countries should base their consumption not on relative prices but on "need." The problem as indicated above is that need and waste concepts apart from relative prices provide no operational criterion by which the consumer can make choices. What do we "need," for example, in the way of clothing, electricity, gasoline or food? It has been shown that a nutritious minimum cost diet can be formulated for people as is done for livestock. Such a diet would

enable U.S. families simultaneously to have a more nutritious diet and to reduce food expenditures to less than one-half their current level! Is this the food budget we "need?" Can all food expenditures in excess of this minimum cost nutritious diet properly be considered waste? Few of us will agree to sacrifice all palatability considerations and rely solely on cost considerations in choosing our diet.

The same problem arises in the use of gasoline, electricity, and in fact, all goods and services. How does one decide what size car to drive, amount of electricity to use, temperature to set the home thermostat? We, as consumers, respond to changes in relative prices in deciding what to eat, where to live, how to travel to work, heat our homes, and so forth. Each of us would do virtually everything we do in some other way if changes in relative costs were sufficiently large.

Attempts to get people voluntarily to change consumption habits are unlikely to have much effect so long as relative prices remain unchanged. On the other hand, when relative prices change, no one has to encourage consumers to make adjustments in the mix of goods consumed—regardless of whether the good is coffee, beef, gasoline or heating oil. In recent years, as relative prices changed, we have ob-

served pronounced changes in size of auto, in meat consumption, in coffee consumption, in use of electricity, and the like. Market price will effectively ration goods when prices are not held down by administrative decree. There is no known example of a shortage persisting over time where price was relied upon as the rationing mechanism.

### **Problems of Non-Market Allocation Methods**

Few people who suggest that consumers should make choices related to food, gasoline and other products on the basis of some criterion other than price recognize the problems to be overcome when the market mechanism is abandoned or market signals are ignored. Price in a market economy provides signals to both consumers and producers. The market is a highly useful mechanism for determining and transmitting information between all persons in the market. If the market is not permitted to coordinate the decisions of consumers and producers, central direction must be used. However, there is no way for the central planner to obtain all the information which enters into any real world market transaction. Knowledge about no good or resource exists in concentrated form or in a single mind. The economic problem, as Hayek has long stressed, is to secure the best use of our resources utiliz-

ing the knowledge of all members of society for ends whose relative importance only these individuals know.

In the absence of market signals, the regulator faces severe information problems. When the market is abandoned, the planner has no way to determine the information necessary to coordinate supply and demand. Consider the problem of determining the "appropriate" temperature setting, for example, where energy use is to be restricted not by price but by restricting fuel use. The regulator must not only predict the amounts which will be used at various settings, but also the amount which will be produced at the price level which is arbitrarily held below the market-clearing level.

Mandatory allocation or rationing schemes cannot be based on individual preferences and must be arbitrary and capricious. "Need" has no objective content as a guide to allocation, and in the absence of price signals there is no way for the central planner to make an allocation which reflects the subjective considerations of all persons in the market.

Problems are also created for the individual consumer who unilaterally adopts austerity measures and does not respond to market signals. Attempts by a single individual to reduce consumption of food, energy, and other raw materials beyond the level dictated by relative prices will

serve little or no useful purpose. If an individual, acting alone, reduces the level of consumption, the effect on total consumption will be negligible. For example, consider the effect of a decision by one "socially aware" person to reduce gasoline use. The effect on total gasoline usage will be negligible but the inconvenience to that individual can be quite large. If the individual is in business such a decision will increase costs and under competitive conditions will seriously decrease profits or bankrupt the entrepreneur attempting to "do good."

### **Appeals for Group Action**

What are the possibilities for group action? If large numbers of consumers reduce consumption below the level dictated by relative prices, producers receive incorrect signals. Consider, for example, the effect of consumer boycotts of beef, coffee and other goods. A reduction in demand will decrease price, given the level of supply. The decrease in price resulting from the boycott is likely to reduce future supply and cause future prices to be higher than they would otherwise be. Unless the product is effectively monopolized, there is no way for group action by consumers to reduce the long run price of the product.

What do these comments imply about moral suasion as a method of rationing and reducing resource

use? Pleas to reduce use may be effective for a limited period of time when the situation is deemed to be urgent by a large part of the population. The problems enumerated above which arise when market signals are ignored are not eliminated by moral suasion. Moral suasion is also subject to another set of problems.

First, there is the free rider problem common to all voluntary group activity. These activities confer benefits on people who cannot be made to pay for the benefits they receive. When the demand for gasoline is reduced by everyone except Jones, the price is decreased. Jones as a free rider will benefit through the lower price and use *more* gasoline. Moral suasion may be effective for a limited period of time but it cannot solve the free-rider problem associated with pleas to reduce gasoline use, lower thermostats, and otherwise reduce resource use below the level dictated by market prices.

Second, moral suasion to reduce resource use to one's "needs" or to reduce "waste" is subject to all the problems associated with identifying "waste" and "need" discussed above. There is no objective basis upon which the "socially concerned" citizen can determine the proper level of energy use. Consider, for example, the natural gas shortage during the winter of 1976-77 and the pleas to reduce "waste" in home

heating. Upon what basis can the "socially concerned" homeowner decide whether to heat his home to 68°F, 65°F, 60°F, 55°F (or even lower)?

Third, even if moral suasion is effective and all citizens fully comply with, say, a request that thermostats be set at 62°F, the impact will differ greatly from person-to-person. Such a policy as in the case of mandatory restrictions assumes that everyone has similar circumstances. In reality, people differ greatly in their preferences for heat and in their preferred tradeoffs between heat and other sources of expenditure including size of house. The differential impact of any restriction in use of any good or resource is greatly magnified if an attempt is made to indicate the appropriate *amount* to use, e.g., 10 gallons of gas per car per week or 1000 KWH of electricity per month. The circumstances of time and place vary greatly from person-to-person.

### **Conservation and Rationing**

A great deal of effort has recently been devoted to reduce "waste" of natural resources. The effects of such efforts, however, may be inconsistent with other closely related goals. First, consider action to reduce waste of *renewable* resources. Environmentalists and consumerists have been active in promoting recycling of paper in recent years as a

way of conserving trees and protecting forests. Moves to reduce "waste" by reducing the use of paper and other wood products will be counter-productive for people who desire large amounts of forests for their esthetic value since such action will *reduce* the number of trees being grown. Tree producers respond to economic incentives just as other producers do. Thus, the more wood products used, the more trees will be produced. The more trees produced, the more land required for tree production and the larger the forest acreage. People who like to see trees growing are working against their own self-interest when they discourage the use of forest products.

Another simplistic solution, bans on the use of cereals in feeding livestock or forced reductions in meat consumption, will likewise not accomplish the intended goal. Jean Mayer, the famed nutritionist, has suggested, for example, that America could release enough grain to feed 60 million people by reducing meat consumption by 10 percent. Measures to reduce grain fed to livestock or to reduce meat consumption, however, are unlikely to be effective in providing food to the world's hungry people. The hamburger not eaten in the United States will not miraculously appear in the hands of a hungry person in another land.

How about the use of non-

renewable resources including oil, coal, and the like? It is in the owner's interest at any point in time to exploit these resources in such a way as to maximize the wealth, or value of these resources. As non-renewable resources are used, increasing scarcity will be reflected in two ways. First, the price will be bid up as the resources become progressively scarcer. When this happens consumers are induced to economize on the use of the resources. The market provides an effective system of rationing scarce resources both at a given time and over time.

### **Shortages Created**

When prices are arbitrarily held down by government as in the case of natural gas, a shortage is created or exacerbated. The natural gas crunch in January 1977 can be traced directly to current and past government price controls. These price controls have kept prices artificially low and have given incorrect signals to gas producers and consumers. Low consumer prices have encouraged the "wasteful" use of gas by discouraging the use of home insulation, alternative fuel sources, lower thermostat settings, and so on. Low producer prices, at the same time, have reduced the incentives of suppliers of natural gas and served to decrease production.

In addition to involving less government intervention and red tape,

price rationing provides a far more predictable method of restricting energy resource use when contrasted with administrative decrees such as mandatory standards for home insulation and auto mileage. When price increases, people will economize in different ways depending upon their own subjective evaluations. If the price of home heating fuel increases, for example, some people will reduce the temperature in all rooms, some will apply more insulation, some will close off rooms, and so forth.

When mandatory conservation standards are imposed, on the other hand, there is little latitude left for individual ingenuity. Everyone is forced to meet the same standard even though people having different tastes and preferences would economize in different ways if left free to do so; or alternatively, individual ingenuity is now channeled to the circumvention of the mandatory standards rather than to the solution of the problem for which those standards were allegedly imposed.

There is no way mandatory standards can cater to the diversity of individual tastes or take into account the differences existing in literally millions of different circumstances. The fundamental inequity of treating people in unequal circumstances the same way is ignored. Why, for example, should the

homeowner with children now away from home be forced to insulate his entire house though heating and using only half the house? In this and numerous other examples it is easy to see how the individual homeowner can make an accommodation much easier to higher prices than to mandatory standards which cannot reflect different tastes and circumstances.

As non-renewable resources are exhausted, increasing scarcity is reflected in a second way. As price is bid up, the development of substitute resources is encouraged. The cotton price support program instituted in the 1930's, for example, encouraged the development of nylon and other substitutes none of which were predictable when cotton prices were increased. Similarly, increases in prices of fossil fuel will serve to increase the development of new energy sources. Higher fossil fuel prices serve both to make alternative fuel sources currently available more profitable and to encourage the development of energy sources not currently available.

### **Conflicts Minimized**

Finally, the market minimizes conflicts when compared with non-market rationing methods. The market is based on voluntary exchange so that all parties gain when a market transaction takes place. There is little basis for concern or

antagonism when everyone can purchase all of a product he desires at a specified price.

The situation is much different when rationing is performed by non-market methods. The creation of antagonism and conflict is inherent in non-market rationing procedures since more of a product is desired than is available at the price arbitrarily held below the market clearing level. In such a situation an individual can legitimately feel that he is in competition with other consumers for the product whose price is controlled. The equity problems endemic in non-market rationing procedures were discussed above.

Allegations of antisocial conduct frequently arise where nonmarket allocation procedures are used. Each person has a vested interest in reductions in consumption by other people when there is a shortage. Individuals consuming more than they "need" as perceived by the outside observer are alleged to be wasteful. Since "waste" is in the eye of the beholder, efforts to reduce waste must be authoritarian in nature. Such efforts must be based on the values as perceived by the state and not on the values of individual decision makers.

### **Blaming Producers**

Nonmarket allocation procedures also give rise to will-of-the-wisp at-

tempts to determine whether producers are holding back production and whether costs of production are excessive. There will always be a perceived conflict between producers and consumers when production is subject to price controls. Consider the action by the Secretary of the Interior in February 1977 to determine whether producers of natural gas were "holding back production." The allegation was made that producers might be acting against the "public interest" by holding back on production under the expectation that future prices might be higher. Thus, a producer who reduces the amount of natural gas available for immediate consumption is "holding back" and is thereby "anti-social," but a consumer who reduces immediate consumption practices "conservation" which is "socially desirable." If a producer were restricting production anticipating higher future prices, would such conduct be antisocial? If producers do not follow market signals, they have no way to make production decisions including how much to produce or when to produce.

There are only two ways to allocate goods and resources—the market and central direction. The market permits people to choose on the basis of relative prices. Since each party gains under voluntary exchange, conflicts are minimized. When economic goods are rationed

by nonmarket methods, conflicts are inevitable. Since more is desired than is available at the controlled price, measures must be taken to reduce consumption. Austerity measures with pleas to eliminate "waste" and reduce consumption to the "needs" level are endemic in nonmarket allocation procedures. Mandatory "conservation" measures mean that consumers are made poorer by being forced to do without.

### Conclusions

How then ought choices be made in a world of "finite resources?" Conflicts will be minimized when the rules of the game are such that the market is mainly relied upon to ration goods and the individual citizen bases his decisions on his preferences and on relative prices. Admonitions to satisfy essential needs, forego waste, and live in austerity are unlikely to have the effect of feeding the hungry or sheltering the homeless throughout the world.

Forced austerity works against people's willingness to work. If people are prohibited from buying the goods they desire, they will work less and take more of their real income in the form of leisure.

What does this mean about the level of living for us as individuals? The attitude that consumers should not be prohibited from acquiring the "luxury" goods they desire does not mean that we as individuals should follow a pattern of conspicuous consumption. The question of what goods and services each of us consumes, is a matter which must be answered by each of us as individuals. One person cannot identify "waste" in consumption by another individual except by imposing his own standard of values. There is little question that many of us could benefit from a more austere life style. Yet, moves to impose life styles upon us are at variance with the tenets of a free society. ☉

### The Ongoing Cost of Liberty

IDEAS ON



LIBERTY

THE SEARCH for the maximization of human well-being is a continuing one. Like the search for food, it never ends. We eat today but we will hunger again tomorrow. The cost of liberty is an ongoing cost. It is never paid in full. We achieve some measure of liberty today but we must strive again tomorrow. Were a totally libertarian society to emerge today, we would have to strive for it again the next day.

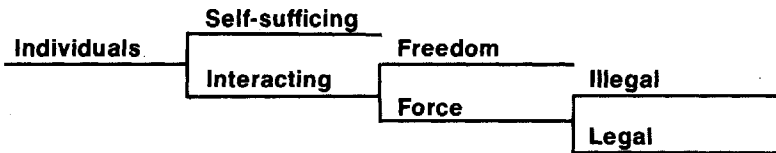


# A HUMAN ACTION TAXONOMY

A TAXONOMY is a technique of classification. The zoologist, for example, uses the categories phylum, class, order, family, genus, and species to classify animals. This system of classification makes the zoologist's study more manageable, thus enabling him to "peg" correctly any given member in the entire animal kingdom.

The student of liberty may also find it useful to have a taxonomy, a taxonomy of human action. In his book, *The Law*, Frederic Bastiat provides just such a system for classifying human action. With knowledge of this taxonomy, the student of liberty can readily "peg" any human action and thus distinguish between actions that promote liberty from actions that erode liberty.

I have tried to extract the essence of *The Law* and put that essence in the form of a diagram—my human action taxonomy.



Reading the diagram from left to right, the starting point is the individual. All human action ultimately reduces to the actions of specific individuals. The individual is the most important element in society.

The individual may choose to be self-sufficient or to interact with others. At least theoretically, an individual can go it alone in life. However, at this stage in history, it is practically impossible to be self-sufficient. Realistically, we find ourselves on the "Individuals—Interacting" branch of the diagram.

There are alternative ways of interacting. We may interact with others freely, voluntarily, peacefully. Individuals interacting with others voluntarily are motivated by the prospect of profit, by the prospect of gain for *all* parties to the transaction. Thus, it seems logical to try to *maximize* the number of voluntary human actions.

Alternatively, we may interact with others forcefully, under coercion or the threat of coercion. When an individual interacts with others under compulsion or the threat of compulsion, not all parties gain. The predator may gain; the individual preyed upon certainly loses. Thus, it seems logical to try to *minimize* the number of human actions rooted in force.

Note that "Force" has two branches in the diagram. The upper branch is "Illegal." From time immemorial, some types of human action have been generally condemned. Actions such as theft, rape, and murder are examples of illegal, forceful interactions of individuals. Since most people are alert to such actions and since there is widespread agreement that these actions are reprehensible, these constitute a relatively small percentage of all human action. It is doubtful that the greatest perils to civilizations come from this category of human action.


We come now to perhaps the most instructive part of the diagram, the "Legal" branch of "Force." Government subsidies are examples of legal, forceful interactions of individuals. It is obvious that subsidies are legal, being duly sanctioned by law. Although the force in subsidies may not be so obvious, it is there nonetheless.

Subsidies are financed with taxes such as federal personal income taxes. I pay income taxes partly in fear of forceful reprisals if I do not. Tens of thousands of other citizens of the United States reason and act the same way I do, I surmise. So it is from the threat of force that at least some of us pay income taxes, from which subsidies are paid. Thus, it seems to me, subsidies are an example of legal, forceful interactions of individuals.

There is a feature of legal, as opposed to illegal, forceful interactions of individuals that makes this category of human action a special

threat to our welfare. Since the federal government of the United States was founded, in part, to "establish justice," I suspect we may be lulled into thinking that all of the federal government's activities are consistent with this objective, i.e., that all such activities are just. Thus, legal, forceful human actions may insinuate themselves into a society of inattentive, uncritical individuals. But the fact that actions rooted in force are implemented by a government designed to "establish justice" leaves such actions still rooted in force.

Recall that in transactions rooted in force, the predators may gain but those preyed upon certainly lose. Those preyed upon are necessarily the producers in society. Surely as predators prey upon producers, the producers will become less inclined to produce. True, if the producers have accumulated output from the past and if they are currently very productive, they may endure considerable predation with no *apparent* harm to society for a while. But if the amount of predatory human action keeps growing and growing, the producers will, sooner or later, become less inclined and then disinclined to produce no matter how well off they are at the outset. With predation waxing and production waning in a society, that society is surely doomed.

It is not inevitable that this destructive process continue. By increasing the proportion of their voluntary, mutually profitable transactions, any group of individuals can invigorate, or reinvigorate, their society. Equipped with this human action taxonomy, the proponent of liberty can readily "peg" any human action and thus decide which actions he will take or support, and which actions he will reject or oppose. I trust that others may find this human action taxonomy helpful in the cause of human liberty. 

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Mr. Haywood is associate professor of business and finance at Northwood Institute, Midland, Michigan.

This article is from a speech at Northwood's 1978 summer seminar on "Freedom in Third Century America."

# Ethics and Economics

ECONOMICS did not begin as the "dismal science." It began, in Adam Smith's *The Wealth of Nations*, as a grand essay on the consequences of human choice, sometimes statistically predictable, sometimes not, in a field that presumes a framework of law, culturally determined habits, and common notions of justice and morality.

Smith, whose first interests were ethics and jurisprudence, knew that an economist must use deductive logic as much as arithmetic and algebraic thinking if he is to make sense of his subject. It was for a very sensible reason that Ludwig von Mises, reverting to the Smith practice, put his own study of economics into the wider, and eminently Smithian, perspective of "human action," a subject of such vast scope that it brings everything from ethics to

physiology, psychology and politics into the picture. The good economist must be a learned man, versed in general history as well as statistics, and with a wary eye for what judges, legislators and bureaucratic administrators do to hobble or direct the choices of millions of marginal bargainers they have never seen.

Smith, the learned Eighteenth-Century man par excellence, backed into his study of economics by way of ethics and jurisprudence, which were the general substance of many of his lectures and of his book on the theory of the moral sentiments. It was the "policeman's" duty, he observed, to provide cleanliness, safety and a cheap access to economic goods to the members of a society. (By "policeman" Smith meant the politician, or the statesman.) It was only as an afterthought, which came

to him when he observed the workings of the mercantilist system of state intervention, that Smith decided the proper way for a policeman to provide for "plenty" or "opulence" was to get out of the way of the producer.

### **Natural Liberty**

Force was necessary to the happiness of human beings when it came to providing for the safety of the realm, and for preventing plagues. Force was necessary to restrain human viciousness—hence the desirability of the common law and a court system. But force, in the marketplace, was an inhibiting thing. "Natural liberty" was the key to the "wealth of nations." The Eighteenth-Century mercantilists, who persisted in using the state to coerce traders, were anti-plenty—and therefore morally delinquent in their approach to the third duty of the policeman to see that people were as affluent and well-nourished as their industry and aptitudes could make them.

The ethical cast that Smith gave to his economics colors most of the bicentennial essays, assembled by Fred R. Glahe for his book, *Adam Smith and the Wealth of Nations* (Colorado Associated University Press, Boulder, Colorado 80309, 172 pp. 1978, \$12.50). For one example, James M. Buchanan of Virginia Polytechnic Institute is preoccupied with "the justice of natural liberty."

If a man's aptitude is for driving a truck or a taxicab, Buchanan asks, is it just to exclude him from competing for the trade of carrying goods or human beings from here to there? The answer must be that excluding men from markets is immoral. Natural liberty implies equal liberty, and if the "policeman"—i.e., the State—is arbitrary in prescribing licensing processes it must indeed be called unjust.

In his essay on "Smith Versus Hobbes," Joseph J. Spengler of Duke University observes that, in theory, justice may flourish under the ideal collectivist state or under a free economy "buttressed in a minor degree by collectivist supplementation when pronounced externalities are involved." But in reality, so Spengler avers, when the state mixes into economic matters those who control the government apparatus get the cream while the underlying population must be content with the thinnest of skim milk. This is palpably unjust. The market system is much more just in that it tends to promote a high degree of correspondence between individual performance and reward.

### **Two Views of Man**

The difference between Smith's view of human nature and Hobbes' view is rooted in a theory of man. Hobbes thought the uncoerced human being would soon revert to

the law of the jungle. He therefore supported the leviathan state as a restraining influence. But Smith, according to Thomas Sowell of the University of California in Los Angeles, another contributor to the Glahe book, thought that man, though a striver for self-interest, could be counted on to be held in check by public opinion, the law, and other representatives of morality. The Smith view leads to the limited state as the just state, with the "policeman" exercising his Hobbesian nature only in fighting crime and in defending the realm at its borders.

Another Glahe contributor, Professor William J. Baumol of Princeton and New York University, deals with "Smith Versus Marx on Business Morality and the Social Interest." Curiously, Smith had a much lower opinion of the morality of businessmen than Marx, who tended to see the capitalist as an individual beyond good and evil who served something called the "historic process." Smith trusted the market mechanism to keep the businessman from achieving the monopoly for which his greed might hunger. The "invisible hand," in providing for competition, dictated a moral outcome despite the natural propensity of some businessmen to conspire to limit the market and raise prices. Marx, who thought monopoly was inevitable, was not

concerned with individual morals. His "invisible hand" worked through classes, and the end—the seizure of the monopolies by the proletariat—was decreed in the stars no matter how individual capitalists behaved.

### **The Morality of the Market**

Leonard Billet of the University of California in Los Angeles endorses James Buchanan's ethical choice of subject by calling his contribution "Justice, Liberty and Economy." What particularly impressed Billet about Smith's *The Wealth of Nations* is its concern with the immorality of Britain's treatment of its North American colony, where the "rights of Englishmen" were ignored by the mercantilists of London working in cahoots with a stupid government. Smith's economic principles, says Billet, "are fundamentally moral principles. They are favorable neither to robbers nor to barons."

Ethics plays a less prominent part in the essays contributed to Glahe by Milton Friedman, Harry G. Johnson and Ronald Max Hartwell. Friedman writes eloquently about the relevance of Adam Smith to the modern day. Johnson is less impressed with Smith's value to moderns now that the "corporation in its internal activities is organized in a non-market, bureaucracy-like fashion, with decision-making by committee and consensus procedures."

As for Ronald Max Hartwell, he is primarily interested in Smith's relation to the industrial revolution, which was hardly begun in 1776. Whether Smith foresaw the economic effects of the steam engine seems to Hartwell to be beside the point. Smith certainly knew that the England and Scotland of his time were in a take-off phase in growth.

### Man of Letters and Economist

Adam Smith was not only a moralist, he was also a man of letters, an educator, and a clubbable man in a clubbable society. In a fascinating book, *Adam Smith: Man of Letters and Economist* (Exposition Press, Hicksville, New York 11801, 297 pp., \$10.00), Clyde E. Dankert deals, among other things, with Smith as a literary stylist. He remarks in particular on Smith's fondness for triplicates, such as the "butcher, baker, and brewer" and the tendency of man to "truck, barter, and exchange." The triplicates not only achieved balance, they provided for nuances. Dankert also notes Smith's ability to combine indignation and elegance of diction, as when he spoke of "that insidious and crafty animal, vulgarly called a statesman or politician." Always the ethical man, Smith believed in "just indignation," which he sometimes tempered with humor and sometimes did not.

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### GOVERNMENT BY JUDICIARY: THE TRANSFORMATION OF THE FOURTEENTH AMENDMENT

by Raoul Berger  
(Harvard University Press,  
79 Garden Street, Cambridge,  
Mass. 02138)  
483 pages ■ \$15.00

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*Reviewed by L. Edward Robbins*

RAOUL BERGER, renowned constitutional historian, charges that the United States Supreme Court—a presumed fount of constitutional wisdom—is itself acting unconstitutionally by sitting as a "continuing constitutional convention," revising the Constitution at will. Such action transforms our government from one of several coordinated branches, each equally capable of checking abuses by the others, to a government by the judiciary.

The consequences are ominous. Judges are no less fallible than other men, no less ambitious for power. Their unchecked authority is as antithetical to liberty as that of anyone.


Originally, judicial review was "divorced" from policy-making. It was merely a process through which the Court might void legislative or executive action deemed unconstitutional, and the Constitution's meaning was determined not by judicial whim or fancy but by looking to the intent of its framers.

Judicial review has now become a power through which the Court participates actively in policy-making. The question posed by the Court on review is no longer whether a particular policy is constitutionally permissible, but whether such policy corresponds to judicial notions of societal "oughts." Such review infringes the democratic prerogatives of this nation.

Revisionists cry that the Constitution must be continually modified to meet the exigencies of governing a changing nation such as ours. Berger replies that liberty can be enjoyed only through a fixed Constitution which places specific limitations or "chains" on ambitious, self-interested individuals. Further, the Constitution provides expressly for its amendment as exigencies demand. Revisionist interpretations render these provisions a nullity. Thus recourse to amendment is both sufficient and mandatory.

Berger builds his case against revisionism through a detailed analysis of the Fourteenth Amendment. Drawing extensively on legis-

lative history, he argues that the amendment was originally intended to compel the states to secure, through the privileges and immunities clause, only those rights traditionally understood as "fundamental" or "absolute," excluding such matters as legislative reapportionment and school desegregation. He then traces the imposition by the Court of these and other unintended measures through a misplaced emphasis on the equal protection clause.

Needless to say, Berger's work has not endeared him to many of his onetime liberal fans who relied heavily on his *Executive Privilege: A Constitutional Myth* (1974) and *Impeachment: The Constitutional Problems* (1973). They would have preferred that a more lenient standard be applied to the judiciary. But Berger's scholarly integrity precluded such duality. He has judged the executive and judiciary by the same standard—the framer's intent—and found them both wanting. 

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# Index

THE FREEMAN—Volume 28, January-December 1978

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

### ADVERTISING

What the interventionist overlooks (Richman)  
9:542-545

"AFFECTED with a public interest" (Foley) 9:515-524

### AFRICA

Perspectives on hunger in the world (J. A. Sparks)  
11:643-651

### AGRICULTURE

Farm strike—will it do more harm than good?  
(Cade) 4:211-214

Perspectives on hunger in the world (J. A. Sparks)  
11:643-651

Tyranny of minorities (Shannon) 1:17-20

ALL these rights (Goodman) 1:9-16

ARE successful businessmen just lucky? (Summers)  
12:719-720

AUSTERITY, waste and need (Pasour) 12:743-752

AWAKE or asleep? (McMunn) 3:184-187

AYAU, Manuel F.

Ideology of underdevelopment, The. 10:616-623

## B

BAKER, William L.

Native pottery only. 12:739-742

BAKKE. See U. S. Supreme Court

BANK, how safe is yours? (Sennholz) 10:589-592

BARGER, Melvin D.

See Book reviews (Benson; Bork)

BASTIAT, Frederic—ideas of

Law also is polluted. (Hood) 7:441-444

BECHARA, Dennis

Market for labor, The. 3:137-143

BRADFORD, Ralph

Golden age, The. 9:525-528

Gourds and dollars. 8:460-462

Making sense out of the world. 3:179-183

Those Mayflower ecologists. 11:654-658

We the people. 7:387-393

BROWNFELD, Allan C.

See Book reviews (Bruce-Briggs; Morley)

BUSINESS, government regulation of

Government regulation and business management  
(Semmens) 5:297-302

Risk and profit versus security (McDonald)  
5:291-296

Some ideas about business (Russell) 2:67-72

Walking into a trap (North) 5:265-275

World in the grip of an idea, 18 & 20 (Carson)  
6:349-362 and 8:463-474

BUSINESS, social responsibility of (Summers)  
11:652-653

BUSINESSMEN, successful, are they just lucky?  
(Summers) 12:719-720

## C

CADE, Leland P.

The farm strike—will it do more harm than good?  
4:211-214

CANADA

Risk and profit versus security (McDonald)  
5:291-296

CARSON, Clarence B.

World in the grip of an idea (serialized):

13. World War II: the socialist conflagration.  
1:38-50

14. World War II: the bitter fruit of ideology.  
2:102-115

15. Sweden: the matrix of tradition and gradualism.  
3:150-162

16. Sweden: the paternal state. 4:223-234

17. Sweden: tightening the screws. 5:278-290

18. The United States: a republic and gradualism.  
6:349-362

19. The United States: the concentration of power.  
7:425-436

20. The United States: business as an instrument  
of political power. 8:463-474

21. The United States: the thrust to transformation.  
9:546-557

22. The United States: a bemused people. 10:  
593-602

23. The cold war: revolutionary vs. evolutionary  
socialism. 11:661-673

24. The cold war: the spread of communism. 12:  
725-738

- CHAMBERLAIN, John. *See* Book reviews
- CHARITY  
Hidden costs of free lunches (North) 4:200-203  
Road to Jericho (Watkins) 6:346-348  
What is happening to old-fashioned charity?  
(Hillendahl) 6:339-345
- CHRISTIAN view of labor unions (North) 7:394-398
- CHRISTIANITY, monastic  
No continuing city: paradox of a Christian society  
(Opitz) 2:73-84
- COERCION  
Hidden costs of free lunches (North) 4:200-203  
Human action taxonomy (Haywood) 12:753-755  
*See also*: Government . . . ; Taxes
- COMMUNISM  
*See* Carson; Socialism
- COMPETITION, consumer sovereignty  
Consumer's role (Essock) 3:131-136  
Ideas that serve (Nelms) 7:437-440  
Individual in society (Mises) 10:624-631  
*See also*: Prices/pricing
- CONFLICT, social, political medicine breeds  
(Sennholz) 3:175-178
- CONSERVATION  
Austerity, waste and need (Pasour) 12:743-752
- CONSTITUTIONAL restraints on power (Opitz)  
4:239-243
- CONSUMER boycotts  
Austerity, waste and need (Pasour) 12:743-752
- CONSUMER's role (Essock) 3:131-136
- CRIME and punishment  
Who guards the guardians? (McDonald) 1:32-37

## D

- DAY after to-morrow (R. L. Stevenson) 8:489-497
- DECISION against meritorious achievement  
(Worham) 10:611-615
- DO you believe in freedom? (Mulwitz) 11:659-660
- DONWAY, Roger  
Living together. 4:204-210
- DYKES, Charles  
Guilt, responsibility and western prosperity.  
4:195-199

## E

- ECONOMIC development/progress  
Ford is not a mango (Nystrom) 1:3-8  
Guilt, responsibility and western prosperity  
(Dykes) 4:195-199  
Ideology of underdevelopment (Ayau) 10:616-623  
Ten rules for understanding economic development  
(Higgs) 3:163-168
- ECONOMIC production, efficiency  
Austerity, waste and need (Pasour) 12:743-752  
Awake or asleep? (McMunn) 3:184-187  
Farm strike—will it do more harm than good?  
(Cade) 4:211-214

- Labor in a free society (Eshleman) 11:674-676  
No continuing city: paradox of a Christian society  
(Opitz) 2:73-84  
Social responsibility of business (Summers)  
11:652-653  
What the interventionist overlooks (Richman)  
9:542-545  
*See also* Entrepreneurial . . . ; Profits/losses
- ECONOMIC reasoning  
Levels of discussion (Sennholz) 4:215-219  
Reasoning in economics (Facey) 1:59-61
- EDUCATION, high school debate  
Medical care and malpractice insurance (Greaves)  
1:21-31  
ENERGY in a changing world (Greaves) 9:531-541  
ENERGY, production and regulation of  
Austerity, waste and need (Pasour) 12:743-752  
Free lunch myth (Pasour) 5:259-264  
Government regulation and business management  
(Semmens) 5:297-302  
How to break up OPEC (Henkel & Poole)  
10:579-588  
Law of the jungle vs. jungle of law (Semmens)  
9:558-560  
Regulation and energy transport (Semmens) 2:90-97
- ENTREPRENEURIAL actions/decisions  
Future is purchased today (Sennholz) 7:406-409  
Ideas that serve (Nelms) 7:437-440  
"Invisible hand" or heavy hand? (Montgomery)  
12:711-719  
Who killed cock robin? (J. C. Sparks) 6:363-365  
*See also* Profits/losses
- ENVIRONMENTAL protection (parable)  
Those Mayflower ecologists (Bradford) 11:654-658
- ENVY  
Perspectives on hunger in the world (J. A. Sparks)  
11:643-651
- EQUALITY idea in America (Van Til) 5:303-317
- ESHLEMAN, Timothy  
Labor in a free society. 11:674-676
- ESSOCK, Cyd  
The consumer's role. 3:131-136
- ETHICAL, is the free market? (Foldvary) 4:220-222

## F

- FACEY, Edward C.  
Reasoning in economics. 1:59-61
- FARM strike—will it do more harm than good?  
(Cade) 4:211-214
- FEDERAL Power Commission  
How to break up OPEC (Henkel & Poole) 10:579-588  
Law of the jungle vs. jungle of law (Semmens)  
9:558-560  
*See also* Energy
- FEDERAL RESERVE & FDIC  
How safe is your bank? (Sennholz) 10:589-592
- FLYNN, John T.  
To be forewarned. 3:149

**FOLDVARY, Fred E.**

Is the free market ethical? 4:220-222

**FOLEY, Ridgway K., Jr.**

"Affected with a Public Interest." 9:515-524

The problem with power. 3:169-174

FORD is not a mango (Nystrom) 1:3-8

FREE lunches, hidden costs of (North) 4:200-203

FREE lunch myth (Pasour) 5:259-264

FREEDOM, do you believe in? (Mulwitz) 11:659-660

FREEDOM and cooperation

Human action taxonomy (Haywood) 12:753-755

Humane values and the free economy (Opitz)  
6:323-334

Individual in society (Mises) 10:624-631

Living together (Donway) 4:204-210

Problem with power (Foley) 3:169-174

Survival of the species (Morell) 7:410-419

FUTURE is purchased today (Sennholz) 7:406-409

**G****GALBRAITH, John K.—ideas of**

Levels of discussion (Sennholz) 4:215-219

GAS deregulation, myths & realities of—

how to break up OPEC (Henkel & Poole) 10:579-588

GERMAN Nazism

World in the grip of an idea, 13 & 14 (Carson)

1:38-50; 2:102-115

GLORY be! (Read) 12:707-710

GOLDEN age (Bradford) 9:525-528

GOODMAN, Charley

All these rights. 1:9-16

GOURDS and dollars (Bradford) 8:460-462

GOVERNMENT planning

Future is purchased today (Sennholz) 7:406-409

"Invisible hand" or heavy hand? (Montgomery)

12:711-719

Keep off the grass (North) 8:475-480

Success of failure (T. W. Hazlett) 8:498-504

What government officials cannot know (Summers)

7:399-405

GOVERNMENT regulation and business management

(Semmens) 5:297-302

GOVERNMENT regulation/control/intervention

Awake or asleep (McMunn) 3:184-187

Consumer's role (Essock) 3:131-136

Energy in a changing world (Greaves) 9:531-541

Farm Strike—will it do more harm than good?

(Cade) 4:211-214

Government regulation and business management

(Semmens) 5:297-302

How to break up OPEC (Henkel & Poole) 10:579-588

Law of the jungle vs. jungle of law (Semmens)

9:558-560

Regulation and energy transport (Semmens) 2:90-97

Walking into a trap (North) 5:265-275

We the people (Bradford) 7:387-393

What price control really means (Reed) 4:235-238

What the interventionist overlooks (Richman)

9:542-545

World in the grip of an idea, 18, 19 & 20 (Carson)

6:349-362; 7:425-436; 8:463-474

GOVERNMENT, role of

Individual in society (Mises) 10:624-631

GOVERNMENT spending must be cut (Sennholz)  
12:721-724

GOVERNMENT spending/subsidies/welfare

Do you believe in freedom? (Mulwitz) 11:659-660

Inflation—what it is and what it does (Greaves)

8:455-459

Liberty for older Americans (Gresham) 10:603-610

Medical care and malpractice insurance (Greaves)

1:21-31

Rise and decline of a welfare state (Rydenfelt)

11:677-684

To be forewarned (Flynn) 3:149

You cannot get even (Sennholz) 6:335-338

GREAT BRITAIN

Medical care and malpractice insurance (Greaves)

1:21-31

Prince replies to Machiavelli: Philip of England

on the erosion of freedom (West) 2:116-122

GREAVES, Bettina Bien

Energy in a changing world. 9:531-541

Inflation—what it is and what it does. 8:455-459

Medical care and malpractice insurance. 1:21-31

GRESHAM, Perry E.

Liberty for older Americans. 10:603-610

GUATEMALA

Ideology of underdevelopment (Ayau) 10:616-623

GUILT, responsibility and western prosperity (Dykes)

4:195-199

**H**

HAITI

Gourds and dollars (Bradford) 8:460-462

HAYEK, F. A.—ideas of

"Invisible hand" or heavy hand? (Montgomery)

12:711-719

HAYWOOD, Dale

Human Action Taxonomy, A. 12:753-755

HAZLETT, Thomas W.

Success of Failure, The. 8:498-504

HAZLITT, Henry

Inflation in one page. 5:276-277

One currency for the world? 8:451-455

See also Book reviews (Anderson; Mises)

HENKEL, Carlos and Poole, Robert, Jr.

How to break up OPEC—myths and realities of gas  
deregulation. 10:579-588

HIDDEN costs of free lunches (North) 4:200-203

HIGGS, Robert

Ten rules for understanding economic development.

3:163-168

HILLENDAAHL, Wesley H.

What is happening to old-fashioned charity?

6:339-345

HOOD, Robert E.

Law also is polluted, The. 7:441-444

HOUSING MARKET, zoning laws, and ripple effect

(Leaf) 1:51-58

HOW safe is your bank? (Sennholz) 10:589-592  
 HOW to break up OPEC (Henkel & Poole) 10:579-588  
 HUMAN action taxonomy (Haywood) 12:753-755  
 HUMANE values and free economy (Opitz) 6:323-334  
 HUNGER, perspectives on (J. A. Sparks) 11:643-651

## I

IDEA of equality in America (Van Til) 5:303-317  
 IDEOLOGY of underdevelopment (Ayau) 10:616-623  
 IDEAS that serve (Nelms) 7:437-440  
 IDEAS/ideologies  
 Golden age (Bradford) 9:525-528  
 Guilt, responsibility and western prosperity (Dykes)  
 4:195-199  
 Making sense out of the world (Bradford) 3:179-183  
 Who killed Cock Robin? (J. C. Sparks) 6:363-365  
*See also* Carson

IDEAS/innovations/inventions  
 Energy in a changing world (Greaves) 9:531-541  
 Ideas that serve (Nelms) 7:437-440  
 Through the eyes of a Connecticut Yankee  
 (J. C. Sparks) 2:98-101  
*See also* Entrepreneurial . . .

## INDIANS, American

Survival of the species (Moreell) 7:410-419

## INDIVIDUAL in society (Mises) 10:624-631

INDIVIDUAL actions/rights/responsibilities  
 "Affected with public interest" (Foley) 9:515-524  
 All these rights (Goodman) 1:9-16  
 Guilt, responsibility and western prosperity (Dykes)  
 4:195-199

Inflation—what it is and what it does (Greaves)  
 8:455-459

Keep off the grass (North) 8:475-480

Living together (Donway) 4:204-210

Road to Jericho (Watkins) 6:346-348

Some thoughts on taxation (Leef) 9:561-569

Who guards the guardians? (McDonald) 1:32-37

You cannot get even (Sennholz) 6:335-338

## INDIVIDUAL differences, individuality

Decision against meritorious achievement  
 (Wortham) 10:611-615

Do you believe in freedom? (Mulwitz) 11:659-660

Glory be! (Read) 12:707-710

Survival of the species (Moreell) 7:410-419

## INFLATION in one page (Hazlitt) 5:276-277

INFLATION—what it is and what it does (Greaves)  
 8:455-459

## INSURANCE/security

Medical care and malpractice insurance (Greaves)  
 1:21-31

Some ideas about business (Russell) 2:67-72

What's in it for us? (Russell) 9:528-530

*See also* Security . . .

"INVISIBLE hand" or heavy hand? (Montgomery)  
 12:711-719

IS the free market ethical? (Foldvary) 4:220-222

## J

JEREMIAH'S job (North) 3:144-148  
 JERICHO, road to (Watkins) 6:346-348  
 JOHNSON, Thomas L.  
*See* Book reviews (Packard)

## K

KEEP off the grass (North) 8:475-480  
 KEMMERER, Edwin Walter  
 To be forewarned. 3:148-149  
 KNICKERBOCKER, Harry C., Jr.  
 Mystery of inflation, The. 7:420-424  
 KNOWLEDGE, division of  
 "Invisible hand" or heavy hand? (Montgomery)  
 12:711-719  
 Success of failure (T. W. Hazlett) 8:498-504

## L

LABOR in a free society (Eshleman) 11:674-676

## LABOR, labor unions

Christian view of labor unions (North) 7:394-398

Market for labor (Bechara) 3:137-143

Who killed Cock Robin? (J. C. Sparks) 6:363-365

## LAND use

Zoning laws, housing market and ripple effect  
 (Leef) 1:51-58

LAW is also polluted (Hood) 7:441-444

LAW of jungle vs. jungle of law (Semmens) 9:558-560

## LEEF, George C.

Some thoughts on taxation. 9:561-569

Zoning laws, the housing market and the ripple  
 effect. 1:51-58

LEVELS of discussion (Sennholz) 4:215-219

## LIBERALISM, defined

Individual in society (Mises) 10:624-631

LIBERTY for older Americans (Gresham) 10:603-610

LIBERTY, champion of—Robert Louis Stevenson

(B. Stevenson) 8:481-488

LIVING together (Donway) 4:204-210

## LUCK

Are successful businessmen just lucky? (Summers)  
 12:719-720

## M

MACHIAVELLI, a Prince replies: Philip of England  
 on the erosion of freedom (West) 2:116-122

MAKING sense out of the world (Bradford) 3:179-183

MARKET for labor (Bechara) 3:137-143

## MARX, Karl—ideas of

"Invisible hand" or heavy hand? (Montgomery)  
 12:711-719

No continuing city: paradox of a Christian society  
 (Opitz) 2:73-84

Real exploiters (Palmer) 2:85-89

- McDONALD, Kenneth  
Risk and profit versus security. 5:291-296  
Who guards the guardians? 1:32-37
- McMUNN, Earl W.  
Awake or asleep? 3:184-187
- MEDICAL care & malpractice insurance (Greaves)  
1:21-31
- MEDICINE, political, breeds social conflict (Sennholz)  
3:175-178
- MERCANTILISM  
"Invisible hand" or heavy hand? (Montgomery)  
12:711-719
- MINORITIES, racial/religious/privileged  
All these rights (Goodman) 1:9-16  
Decision against meritorious achievement  
(Wortham) 10:611-615  
Tyranny of minorities (Shannon) 1:17-20
- MISES, Ludwig von  
Individual in society, The. 10:624-631
- MONEY, inflation  
Gourds and dollars (Bradford) 8:460-462  
How safe is your bank? (Sennholz) 10:589-592  
Inflation in one page (Hazlitt) 5:276-277  
Inflation—what it is and what it does (Greaves)  
8:455-459  
Liberty for older Americans (Gresham) 10:603-610  
Mystery of inflation (Knickerbocker) 7:420-424  
One currency for the world? (Hazlitt) 8:451-455  
Silver panic (Reed) 6:366-377  
To be forewarned (Kemmerer) 3:148-149
- MONOPOLY  
"Affected with public interest" (Foley) 9:515-524  
Christian view of labor unions (North) 7:394-398  
See also Competition; government regulation
- MONTGOMERY, John  
The "invisible hand," or the heavy hand? 12:711-718
- MORALITY, religious principles  
Guilt, responsibility and western prosperity (Dykes)  
4:195-199  
Humane values and the free economy (Opitz)  
6:323-334  
Is the free market ethical? (Foldvary) 4:220-222  
Jeremiah's job (North) 3:144-148  
Law also is polluted (Hood) 7:441-444  
Road to Jericho (Watkins) 6:346-348
- MOREELL, Ben  
Survival of the species. 7:410-419
- MULWITZ, Sharon B.  
Do you believe in freedom? 11:659-660
- MYSTERY of inflation (Knickerbocker) 7:420-424

## N

- NATIVE pottery only (Baker) 12:739-742
- NELMS, Willie E.  
Ideas that serve. 7:437-440
- NO continuing city: paradox of a Christian society  
(Opitz) 2:73-84

- NORTH, Gary  
Christian view of labor unions, A. 7:394-398  
Hidden costs of free lunches, The. 4:200-203  
Jeremiah's job. 3:144-148  
Keep off the grass. 8:475-480  
Walking into a trap. 5:265-275
- NYSTROM, Vaughn C.  
A Ford is not a mango. 1:3-8

## O

- OLDER Americans, liberty for (Gresham) 10:603-610
- ONE currency for the world? (Hazlitt) 8:451-455
- OPEC, how to break up (Henkel & Poole) 10:579-588
- OPITZ, Edmund A.  
Constitutional restraints on power. 4:239-243  
Humane values and the free economy. 6:323-334  
No continuing city: the paradox of a Christian  
society. 2:73-84

## P

- PALMER, Scott D.  
The real exploiters. 2:85-89
- PASOUR, E. C., Jr.  
Austerity, waste and need. 12:743-752  
Free lunch myth, The. 5:259-264
- PERSPECTIVES on hunger in the world  
(J. A. Sparks) 11:643-651
- PETERSON, William H. See Book reviews (Simon)
- PHILIP of England, a prince replies to Machiavelli  
(West) 2:116-122
- PIETRUSZA, David A. See Book reviews (Davis)
- POLITICAL medicine breeds social conflict (Sennholz)  
3:175-178
- POOLE, Robert, Jr. (co-author) See Henkel
- POWER, problem with (Foley) 3:169-174
- PRICES/pricing  
Austerity, waste and need (Pasour) 12:743-752  
Free lunch myth (Pasour) 5:259-264  
"Invisible hand" or heavy hand? (Montgomery)  
12:711-719  
What price control really means (Reed) 4:235-238  
What the interventionist overlooks (Richman)  
9:542-545  
See also Competition . . .
- PRINCE replies to Machiavelli: Philip of England on  
the erosion of freedom (West) 2:116-122
- PRIVATE property  
Future is purchased today (Sennholz) 7:406-409  
Some ideas about business (Russell) 2:67-72  
Some thoughts on taxation (Leef) 9:561-569
- PROBLEM with power (Foley) 3:169-174
- PROFITS/losses  
Are successful businessmen just lucky? (Summers)  
12:719-720  
Risk and profit versus security (McDonald)  
5:291-296

- Some ideas about business (Russell) 2:67-72  
 Success of failure (T. W. Hazlett) 8:498-504  
 What's in it for us?(Russell) 9:528-530  
*See also Entrepreneurial . . .*
- PROPHECY**  
 Jeremiah's job (North) 3:144-148
- PUBLIC** interest, affected with (Foley) 9:515-524
- R**
- READ, Leonard E.**  
 Glory be! 12:707-710
- REAL** exploiters (Palmer) 2:85-89
- REASONING** in economics (Facey) 1:59-61
- REED, Lawrence W.**  
 Silver Panic, The. 6:366-377  
 What price control really means. 4:235-238
- REGULATION** and energy transport (Semmens) 2:90-97
- RICHMAN, Sheldon**  
 What the interventionist overlooks. 9:542-545
- RISE** and decline of a welfare state (Rydenfelt) 11:677-684
- RISK** and profit versus security (McDonald) 5:291-296
- ROAD** to Jericho (Watkins) 6:346-348
- ROBBINS, L. Edward**  
*See Book reviews (Berger)*
- RUSSELL, P. Dean**  
 Some ideas about business. 2:67-72  
 What's in it for us? 9:528-530
- RUSSIA**  
 World in the grip of an idea, 13 & 24 (Carson) 1:38-50; 12:725-738
- RYDENFELT, Sven**  
 Rise and decline of a welfare state, The. 11:677-684
- S**
- SAMUELSON, Paul A.**—ideas of  
 Levels of discussion (Sennholz) 4:215-219
- SAVINGS** and investment  
 Energy in a changing world (Greaves) 9:531-541  
 Ford is not a mango (Nystrom) 1:3-8  
 Ideology of underdevelopment (Ayau) 10:616-623  
 Perspectives on hunger in the world (J. A. Sparks) 11:643-651
- SECURITY**, government-guaranteed  
 Day after to-morrow (R. L. Stevenson) 8:489-497  
 Survival of the species (Moreell) 7:410-419
- SELF**-improvement  
 Making sense out of the world (Bradford) 3:179-183  
 Glory be! (Read) 12:707-710
- SEMMENS, John**  
 Government regulation and business management. 5:297-302  
 Law of the jungle vs. the jungle of law. 9:558-560  
 Regulation and energy transport: an unnatural disaster. 2:90-97

- SENNHOLZ, Hans F.**  
 Future is purchased today, The. 7:406-409  
 Government spending must be cut. 12:721-724  
 How safe is your bank? 10:589-592  
 Levels of discussion. 4:215-219  
 Political medicine breeds social conflict. 3:175-178  
 You cannot get even. 6:335-338
- SHANNON, Russell**  
 Tyranny of minorities, The. 1:17-20
- SILVER** panic (Reed) 6:366-377
- SLAVERY**  
 Survival of the species (Moreell) 7:410-419
- SMITH, Adam**—ideas of  
 "Invisible hand" or heavy hand? (Montgomery) 12:711-719
- SNAIL** darter  
 Those Mayflower ecologists (Bradford) 11:654-658
- SOCIAL** conflict  
 Government spending must be cut (Sennholz) 12:721-724  
 Political medicine breeds social conflict (Sennholz) 3:175-178
- SOCIAL** cooperation  
*See Freedom . . .*
- SOCIAL** responsibility of business (Summers) 11:652-653
- SOCIALISM**  
 Day after to-morrow (R. L. Stevenson) 8:489-497  
*See also Carson; Communism; Welfare state*
- SOME** ideas about business (Russell) 2:67-72
- SOME** thoughts on taxation (Leaf) 9:561-569
- SPANGLER, Mark**  
*See Book reviews (Hazlitt)*
- SPARKS, John A.**  
 Perspectives on hunger in the world. 11:643-651
- SPARKS, John C.**  
 Through the eyes of a Connecticut Yankee. 2:98-101  
 Who killed Cock Robin? 6:363-365
- STEEL**  
 Who killed Cock Robin? (J. C. Sparks) 6:363-365
- STEVENSON, Bob**  
 Robert Louis Stevenson: champion of liberty 8:481-488
- STEVENSON, Robert Louis**  
 Day after to-morrow, The. 8:489-497
- SUCCESS** of failure (T. W. Hazlett) 8:498-504
- SUGAR**  
 Tyranny of minorities (Shannon) 1:17-20
- SUMMERS, Brian**  
 Are successful businessmen just lucky? 12:719-720  
 Social responsibility of business, The. 11:652-653  
 What government officials cannot know. 7:399-405  
*See also Book reviews (Rose)*
- SURVIVAL** of the species (Moreell) 7:410-419
- SYNDICALISM**  
 Market for labor (Bechara) 3:137-143
- SWEDEN**  
 Rise and decline of a welfare state (Rydenfelt) 11:677-684

World in the grip of an idea, 15, 16 & 17 (Carson)  
3:150-162; 4:223-234; 5:278-290

## T

## TAXES/taxation

Government spending must be cut (Sennholz)  
12:721-724

Liberty for older Americans (Gresham) 10:603-610

Some thoughts on taxation (Leef) 9:561-569

Survival of the species (Moreell) 7:410-419

What government officials cannot know (Summers)  
7:399-405

What is happening to old-fashioned charity?  
(Hillendahl) 6:339-345

Who killed Cock Robin? (J. C. Sparks) 6:363-365

TAXONOMY, human action (Haywood) 12:753-755

TEN rules for understanding economic development  
(Higgs) 3:163-168

"THIRD world." See Economic development;

Underdeveloped countries

THOSE Mayflower ecologists (Bradford) 11:654-658

THROUGH the eyes of a Connecticut Yankee

(J. C. Sparks) 2:98-101

TO be forewarned (Flynn) 3:149; (Kemmerer)  
3:148-149

TRADE, international

Native pottery only (Baker) 12:739-742

Real exploiters (Palmer) 2:85-89

TRANSFER payments

Free lunch myth (Pasour) 5:259-264

Government spending must be cut (Sennholz)  
12:721-724

You cannot get even (Sennholz) 6:335-338

See also Government spending/subsidies

TWAIN, Mark

Through the eyes of a Connecticut Yankee

(J. C. Sparks) 2:98-101

TYRANNY of minorities (Shannon) 1:17-20

## U

UNDERDEVELOPED countries

Guilt, responsibility and western prosperity (Dykes)  
4:195-199

Ideology of underdevelopment (Ayau) 10:616-623

Real exploiters (Palmer) 2:85-89

See also Economic development

U. S. CONSTITUTION, principles of

Constitutional restraints on power (Opitz) 4:239-243

We the people (Bradford) 7:387-393

World in the grip of an idea, 18 & 19 (Carson)  
6:349-362; 7:425-436

U. S. HISTORY

Idea of equality in America (Van Til) 5:303-317

Native pottery only (Baker) 12:739-742

Silver panic (Reed) 6:366-377

Survival of the species (Moreell) 7:410-419

World in the grip of an idea, 13, 14 & 23 (Carson)  
1:38-50; 2:102-115; 11:661-673

U. S. SUPREME COURT (Bakke, 1978)

Decision against meritorious achievement  
(Wortham) 10:611-615

## V

VAN TIL, L. John

Idea of equality in America, The. 5:303-317

## W

WALKING into a trap (North) 5:265-275

WATKINS, Hal

Road to Jericho, The. 6:346-348

WE the people (Bradford) 7:387-393

WELFARE state

Government spending must be cut (Sennholz)  
12:721-724

Prince replies to Machiavelli: Philip of England  
on the erosion of freedom (West) 2:116-122

Rise and decline of a welfare state (Rydenfelt)  
11:677-684

To be forewarned (Flynn) 3:149

What is happening to old-fashioned charity?  
(Hillendahl) 6:339-345

Who guards the guardians? (McDonald) 1:32-37

World in the grip of an idea, 16 (Carson)  
4:223-234

WEST, E. G.

A prince replies to Machiavelli: Philip of England  
on the erosion of freedom 2:116-122

WHAT government officials cannot know (Summers)  
7:399-405

WHAT is happening to old-fashioned charity?  
(Hillendahl) 6:339-345

WHAT price control really means (Reed) 4:235-238

WHAT the interventionist overlooks (Richman)  
9:542-545

WHAT'S in it for us? (Russell) 9:528-530

WHO guards the guardians? (McDonald) 1:32-37

WHO killed Cock Robin? (J. C. Sparks) 6:363-365

WORLD in the grip of an idea. See Carson

WORTHAM, Anne

A decision against meritorious achievement.  
10:611-615

## Y-Z

YANKEE, Connecticut, through the eyes of a

(J. C. Sparks) 2:98-101

YOU cannot get even (Sennholz) 6:335-338

ZONING laws, housing market and ripple effect (Leef)  
1:51-58

## BOOK REVIEWS

(Reviewer's name in parentheses)

- ANDERSON, Martin. Welfare: the political economy of welfare reform in the United States (Hazlitt) 9:573-576
- BENSON, Ezra Taft. This nation shall endure (Barger) 3:191-192
- BERGER, Raoul. Government by judiciary: the transformation of the fourteenth amendment (Robbins) 12:759-760
- BORK, Robert H. The antitrust paradox (Barger) 10:635-638
- BORKIN, Joseph. The crime and punishment of I. G. Farben (Chamberlain) 10:632-635
- BRUCE-BRIGGS, B. The war against the automobile (Brownfeld) 6:381-384
- DANKERT, Clyde E. Adam Smith: man of letters and economist (Chamberlain) 12:756-759
- DAVIS, William. It's no sin to be rich: a defense of capitalism (Pietrusza) 4:253-255
- FITZPATRICK, James K. Builders of the American dream (Chamberlain) 1:62-64
- FOUNDATION FOR ECONOMIC EDUCATION. Literature of freedom (Book catalogue, annotated) 11:688-703
- FRANKEL, S. Herbert. Two philosophies of money: the conflict of trust and authority (Chamberlain) 8:509-511
- FRIEDMAN, David. The machinery of freedom: guide to a radical capitalism (Chamberlain) 11:685-687
- GLAHE, Fred (ed.). Adam Smith and the wealth of nations: 1776-1976 bicentennial essays (Chamberlain) 12:756-759
- GOBLE, Frank. Beyond failure: how to cure a neurotic society (Chamberlain) 4:244-246
- HAZLITT, Henry. The inflation crisis, and how to resolve it (Spangler) 10:638-640
- HEFLEY, James C. Textbooks on trial (Chamberlain) 9:570-573
- JOHNSON, Paul. Enemies of society (Chamberlain) 3:188-190
- KRISTOL, Irving. Two cheers for capitalism (Chamberlain) 7:446-448
- MAZLISH, Bruce. The revolutionary ascetic: evolution of a political type (Chamberlain) 2:123-125
- MISES, Ludwig von. A critique of interventionism (Hazlitt) 4:249-251
- \_\_\_\_\_. On the manipulation of money and credit (Hazlitt) 4:251-253
- \_\_\_\_\_. Notes and recollections (Hazlitt) 4:247-249
- MORLEY, Felix (ed.). Essays on individuality (Brownfeld) 2:126-128
- PACKARD, Vance. The people shapers (Johnson) 4:255-256
- READ, Leonard. Vision (Chamberlain) 6:378-381
- REVEL, Jean-François. The totalitarian temptation (Chamberlain) 7:445-446
- ROSE, Tom. Economics: principles and policy from a Christian perspective (Summers) 8:512
- SIMON, William E. A time for truth (Peterson) 8:505-508
- TYRRELL, R. Emmett, Jr. (ed.). The future that doesn't work: social democracy's failures in Britain (Chamberlain) 5:318-320