Freeman

Motvin D. Rarger

2

VOL. 20, NO. 1 • JANUARY 1970

	mentin D. Daigei	9
A progress report on the Independent Postal System of America.		
Forecasting	Hans F. Sennholz	11
The demand for economic forecasting arises from government tam and credit, however uncertain the predictions.	pering with money	
Statist Bureaucracy in the Modern Economy	Gary North	16
The vital difference between private and governmental planning hinges on the freedom to fail individually — not the certainty of		
Reflections on the Guilt Complex	Leonard E. Read	28
A man's property is a mark of trust others have placed in him; he if he turns to socialism.	e betrays everyone	
A Law for Governments Cl	arence B. Carson	31
Those who govern must be limited by law if the citizenry is to be	free.	
The Inherent Weakness of Price Collusion	D. T. Armentano	40
Seven major reasons why price-fixing agreements among produ nificant problem in a free society.	cers is not a sig-	
Intervention Leads to Total Control	istavo R. Velasco	44
The no-man's land between freedom and totalitarianism is a to those seeking something for nothing.	empting mirage to	
Book Reviews:		- 59
"The Flight from Reality" by Clarence B. Carson "The Historical Setting of the Austrian School of Economics" by	Ludwig von Mises	

Private Mail Could Re a Public Roon

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

Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

IRVINGTON-ON-HUDSON, N. Y. 10533 TEL.: (914) 591-7230

LEONARD E. READ

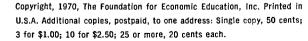
President, Foundation for Economic Education

PAUL L. POIROT

Managing Editor

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

Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including THE FREEMAN, are met through voluntary donations. Total expenses average \$12.00 a year per person on the mailing list. Donations are invited in any amount-\$5.00 to \$10,000-as the means of maintaining and extending the Foundation's work.



Any current article will be supplied in reprint form upon sufficient demand to cover printing costs. Permission is hereby granted to reprint any article from this issue, providing customary credit is given.





MELVIN D. BARGER

THE POSTMAN is figuratively ringing twice in a number of American cities these days. One of the rings could be sweet music to citizens angered by the growing problems of the Federal postal system.

The new courier on the scene is the Independent Postal System of America, making its appointed rounds now in many cities and soon to open services in more. IPSA, established in February, 1968, is an upstart in the communications field and an infant among corporations. But it has made a sensational start and has all the earmarks — or perhaps postmarks — of being the right idea at the right time.

One man who obviously thinks so is its founder, 42-year-old Tom Murray, who already pictures

IPSA jetting ahead into the billion-dollar class. Murray, a restless, entrepreneurial type, could be accused of exaggeration, except for several interesting facts. One. IPSA has already landed enough sales to produce \$1 million in profits during its first year of operation. Two, the potential market is there; postal services run into billions and could go much higher in the years ahead. Three, public opinion is turning bitterly against the U.S. Post Office Department, and the times are right for constructive change.

The last item may turn out to be a matter of considerable importance to IPSA's future. Until a few years ago, the public accepted the government postal monopoly as a fact of life; some people even seemed to believe that only government had the competence to

Mr. Barger is a public relations representative in Jackson, Michigan.

carry mail. A suggestion that private corporations could handle postal services with greater efficiency and economy was often hooted down; it was like suggesting that a private company take over the Washington Monument or the U.S. Coast Guard.

But a number of things have made a private mail system more acceptable in the public mind. Postal service seems to be deteriorating, or at least not keeping up with the noticeable advances in other services (such as the telephone system). The yearly postal deficits are always well-publicized. causing people to wonder frequently "why the Post Office can't at least pay its own way." There have also been the annoying rate increases and raging legislative battles over proposed rate boosts for different classes of mail. Attempts to raise third-class rates have enraged business mailers. and efforts to change the admittedly low rates for publishers has probably contributed something to the bad press the Post Office has been getting.

There may also be some disillusionment over the frequent crusades to make the Post Office more businesslike, an effort that seems to be revived with each change of administration. There was honest hope that Arthur E. Summerfield, a successful Michigan businessman, might succeed in this when he joined the Cabinet in 1953 as President Eisenhower's Postmaster General. Summerfield did make some needed improvements in using private capital to provide for new post office building construction, but he also incurred the hostility of the postal unions and faced considerable political opposition to many of his plans. Summerfield's reign at the Post Office proved that the Department's problems couldn't be solved simply by putting an astute businessman in the head chair.

The Kappel Proposal

The latest ploy in the attempt to buck up the faltering Post Office was the proposal by the Kappel Commission to put the Department under a government corporation. Mr. Kappel, the retired board chairman of the giant American Telephone and Telegraph Company, was doubtlessly chosen to study the Post Office because of his own impressive career in a related communications field. The Kappel proposal now has the endorsement and active backing of President Nixon, but it faces stiff opposition in Congress and from the postal unions. Right now the Kappel plan appears dead. If organized along lines suggested by Mr. Kappel, the Post Office might conceivably become better administered, with less interference from Congress and more control over its own operations. However, the Kappel recommendation is essentially an attempt to remedy the shortcomings of a socialistic enterprise by converting it to another organizational form; it still rests on the delusion that socialism can be made to work if only the right combination of management and organization can be found.

The question of private ownership of the Post Office did get an airing by Mr. Kappel, who dismissed the idea of selling the Post Office because, with the Post Office's deficit, liabilities, and investment needs, "you couldn't sell it to anybody."

The fact that the question of "selling" the Post Office was even asked shows that there's growing interest in a private postal system. Mr. Kappel's answer rerealed the philosophical limitations of a man who has spent his own lifetime in a monopolistic enterprise, albeit a highly success-'ul one. He did not seem to be thinking of the possibility that oostal services could be supplied by new organizations, not just the one now in existence. He apparenty could not bring himself to the joint of proposing that anybody ught to be allowed to carry any lass of mail. that mail deliveries

should not be a legal monopoly of either a public or a private organization.

From Bellboy to Mailman

Against this background of mounting dissatisfaction with the Post Office, Tom Murray's Independent system has come into existence. Murray had no previous postal experience and would have had trouble getting a minor position in the Federal System. An Irish immigrant, he came to America in 1950 and began his business career as a bellboy in a Detroit hotel. Before long, however, he had become manager, and after that his rise was spectacular. The Mayor of Detroit actually proclaimed a "Tom Murrav Day" in 1955, in recognition of Murray's outstanding service in community affairs. He was soon hotel owner as well as manager.

Murray's interest in hotels eventually took him to Oklahoma City where a conversation over a cup of coffee finally nudged him into the mailing business. A local businessman, Darrell Hinshaw, was complaining about his own growing difficulties with postal services. This was nothing new. But the complaints went a step further. Murray soon had some calculations and surveys which indicated that a private company might be able to carry third-class



mail at lower rates than the government and still make a profit!

The figures fired Murrav's imagination, particularly the business potential involved. Hotels and motels, as everybody knows, work in a field of fierce competition, with top limits on the growth that even the most successful firm can achieve. But here in the mailing field the potential market for third-class mail alone was in the billions. If a private company could break into the field and establish its own position, it could not only share this market but also participate in future growth of breathtaking proportions.

A Loophole for Deliveries

But how could a private firm enter the field when legislation prohibited it? Private mailing companies had actually flourished in early America, but by the middle of the last century had been driven out of business by the Federal Private Express Statutes. How could Murray work his way around statutes that had barred other businessmen from the mails for so long?

His door of entry was thirdclass mail, which has been shrilly condemned as "junk mail" in recent years and at times has been held responsible for many of the Post Office Department's problems There's a fine line between "thirdclass" mail and circulars. A business firm for example, has the legal right to deliver printed ma terial to residences, but not to use the mailboxes. Murray dashed of to a Third-class Mailers' convention, and listened to their gripe and problems, and also found then receptive to the idea of a privat delivery system.

"I felt that the Third-clas

Mailers had made a major error in permitting their products to be labeled 'junk'," Murray says. "Third-class mail isn't junk, and it deserves its rightful place in the area of commerce."

Certain by now that he was on track, Murray found a group of backers who could put up \$50.000 immediately and underwrite an additional \$2 million for later expansion. By January, 1968, he had incorporated IPSA, opened offices in Oklahoma City, and announced plans to begin service in February. Deliveries would begin in the city, and then fan out to nearby states, with the long-range goal of becoming nationwide. As if to emphasize the nationwide goal, Murray chose an outline map of the U. S. for the system's trademark and insignia.

Disposable Mailboxes

Announcement of the daring venture captured the public interest; yet it also seemed a too-risky exercise in audacity. *Newsweek* nagazine called it a "showdown" vith the Post Office, and hinted hat Murray would be blocked by rederal authorities. Reporting hat Murray had already signed lelivery contracts with a rubber rrm and an insurance company, *Newsweek* also cited a Post Office Department legal counsel's opinion o the effect that Murray's operations were illegal, that nobody but the Post Office has the right to carry any class of mail. The magazine also suggested that Murray would be courting real trouble when he began making delivery in home mailboxes.

If there was any showdown, nobody in IPSA's headquarters ever noticed, because the Independent System swung into operation on its announced starting date and was soon making almost routine coverage of most of Oklahoma City. Murray wisely avoided challenging the Post Office Department ruling on use of home mailboxes. and developed an attractive plastic container which can be suspended from most doorknobs. The container not only protects the mail and other articles, but one side also serves as an advertisement for the Independent System. The other side has been sold as an advertisement for other firms, actually making the plastic container a profit item instead of an additional cost burden. IPSA would still like to use private mailboxes and is currently trying to get approval of a dual-compartment type, but the plastic bag is doing very well for the time being.

Murray's customer list multiplied almost magically, and by the end of the first year the system had served more than 100 clients and was operating in every major

Oklahoma city as well as communities in Texas, Missouri, Ohio, Arkansas, Alabama, Mississippi, Illinois. New York, and even Canada. The company was expanded rapidly by selling franchises, and received hundreds of inquiries from private individuals seeking their own postmasterships. At the same time. IPSA was getting remarkable press attention, almost all of it favorable. Newsweek's follow-up article after IPSA's first year was largely a success story and other publications such as Saturday Review and Nation's Business saw a bright future for the Independent System, the latter calling it a possible end to the "130-year-old Postal mess."

Guided by the Market

Surprisingly, however, many of the Independent System's operations seem to be similar to those of the Federal department. The couriers still travel on foot, and use vans closely resembling U. S. Postal vehicles. IPSA deliverymen and U. S. mailmen wear almost identical uniforms, walk the same routes, and are often chased by the same dogs. What innovations have given the Independent System an edge, allowing it to take business away from the government mails?

One advantage has been price. Generally, IPSA has been able to deliver third-class articles at about 90 per cent of the Federal rate. A $2\frac{1}{2}$ ounce item, for example, can be delivered by IPSA for 3.3ϕ , versus 3.8ϕ for the U. S. rate. More important, IPSA can guarantee a specific delivery date, which many business mailers such as local retailers must have in publicizing special sales and other events. The Independent System has no "first-class" mail taking precedence in employees' minds, and hence all mail is given the same attention.

Bevond that. IPSA's businesslike approach to problems may be winning them some clients. IPSA salesmen are making regular calls on large business mailers, such as Sears Roebuck, making it clear that their patronage is wanted and appreciated and offering to make service as attractive as possible. Until now, it has been the business mailer who has had to go hat-in-hand to deal with Postal bureaucrats and to be reminded of his product's inferior status in Post Office operations. It must be refreshing to most of them not to hear the term "junk" anymore.

Is IPSA actually handling thirdclass mail more economically than the government? Probably, although nobody can prove it because the Federal system has no systematic approach to its own costs and cannot say for certain

that any class of mail is profitable or unprofitable. As a politicalized institution. the Post Office has simply carried the mail at rates established by Congress, then appealed to the same Congress to make up its annual "deficit." Even the deficit has been something of a myth, however, because the Department doesn't follow customary accounting practices for its overall operations and cannot really be compared with a corporation of similar size. For one thing, capital expenditures for the Post Office have been intolerably low almost every year and there are no indications that Congress will be willing to make them any higher.

The Uncertain Future

Where will it all end? Will Murray's Independent System continue to flourish and grow until it replaces the Federal Post Office? Or will the two systems continue to operate side-by-side, with Murray's organization specializing in "third-class" and the U. S. Post Office carrying the rest of the mail?

Most likely, IPSA's growth and success will turn out to be a source of embarrassment to the Federal mail carriers. In time, the department might conceivably want to restrict IPSA's operations. But this would bring it into collision with public opinion, which wouldn't support favoring the government's Goliath at the expense of Murray's David. If anything, public opinion may veer in the direction of permitting Murray or anybody to haul *all* classes of mail. If so, this would be a tremendous victory for free enterprise, and would finally give libertarians a chance to prove on a wide basis what they have always contended: that private businessmen can deliver the mail for a profit and give the consumer the same efficient service he pets in the delivery of other items.

Some persons believe that a private competitor may cause the Federal system to bestir itself to more efficiency. But don't look for it. The faults with the U.S. Post Office are the basic shortcomings of a socialistic, politicalized bureaucracy, and the officials and others working in the system, even if somehow they could know what ought to be done, are powerless to make the necessary changes. They simply can't make and carry out the day-to-day adjustments and decisions necessary to a good business operation. That's no surprise: it is the nature of socialism to centralize authority, to distort the price signals of the market, to discourage individual incentive, and to subsidize incompetence. Ironically, most of the schemes for correcting socialistic excess - such as the Kappel

plan for the Post Office – really involve creating some of the conditions that prevail as a matter of course in private, profit-minded corporations.

It is also unfortunate that most people think it will take Acts of Congress to give us better mail service. We could have it right now if Congress would only repeal some of the Acts it has already passed. We simply need the freedom to let anybody carry mail. Right now, Tom Murray seems to be doing a great job with the "junk" mail the U. S. Post Office doesn't want to handle. He might do even better if he could carry all classes of mail. And suppose a few other private carriers also got into the mail-carrying business? Who knows? Even Murray might do better under the lash of competition!

Unbeatable Combination

WHEN the sanitation workers of New York City went on strike, the community was confronted with a calamitous pileup of garbage on its streets. Now a late press release tells of the garbage collection troubles of Madrid, Spain. But unlike New York, in Madrid, the sanitation workers of the city have competitors in the form of private garbage collectors.

According to the news report, "Madrid's 800 prosperous freelance garbage collectors . . . compete with the Municipal Sanitation Department in this capital of three million people." The freelancers are known in Spanish as the "traperos." They have been an institution of Madrid since the reign of King Charles III in the 18th Century. They are allowed to operate from dawn until 9 a.m. They collect garbage the same as they did in medieval times with donkey-drawn carts. They collect the equivalent of 35 to 70 cents monthly from each customer but that is not all. The trash they collect is a source of income. They use the perishable garbage to feed pigs, other items are sold to a processing plant, furniture and old clothes wind up at Madrid's flea market. The private enterprise garbage collectors of Madrid earn the equivalent of nearly \$200 monthly - a high income in Spain. This compares with an average wage for Madrid's sanitation workers of \$60 to \$70 a month.

In garbage collecting, as in every other walk of life, incentive and private enterprise are an unbeatable combination. If the municipal garbage collectors of Madrid go on strike, their private enterprise competitors will likely be only too glad to take up the slack.

From The Skaneateles Press (N.Y.), June 27, 1968

IDEAS ON

. LIBERTY



HANS F. SENNHOLZ

MANY business forecasters and market analysts don't realize that they owe their jobs to government. Their profession was born with the first depression that engulfed an economy. And since depressions are the inevitable consequence of inflation and credit expansion. which are deliberate government actions, all occupations and callings that are concerned with the business cycle ultimately owe their existence to government. As a certified public accountant earns his livelihood from the complexities of onerous taxation, so does the market forecaster and business economist derive his support from government policies that generate economic booms and busts.

Businessmen want to know where they are in the cycle. In particular, they would like to know the time when a boom turns to a bust, the date of the break, length and depth of depression, the beginning of recovery, and so on. It does not matter whether they fully understand the ultimate causes of the economic dilemma. They usually know from experience that a boom created by inflation or credit expansion cannot last and must lead to a slump. This is why they often call on economists and expect of them what is beyond the ability of any man.

It is true, many economists can explain logically why the boom plants the seeds for depression. They are aware of the differences between simple inflation and credit expansion, which confuse most

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania and is a noted writer and lecturer for freedom.

businessmen. But they have no special crystal ball through which they can view the future.

Simple Inflation

It does not matter whether the government treasury issues new legal tender notes directly to the people or places its obligations in the banking system which then monetizes the debt. In both cases the proceeds accrue to the government for deficit spending, which is the characteristic of simple inflation. It creates an atmosphere of prosperity and affluence. While many prices rise, business profits are good, stock market profits are excellent, and wages soar. It is true, the unfortunate victims of inflation, such as pensioners and individuals who live on fixed incomes, are forced to curtail their consumption. But most businessmen, workers, and government employees are led to increase their consumption. In fact, businessmen may even consume some capital.

In addition, the expectation of rising prices causes many people to reduce their cash holdings. They prefer to purchase goods and services now before prices rise again. And this reduction in cash holdings in turn raises goods prices even further.

Economic production promptly adjusts to the inflation pattern of spending. Industries catering to government demand and consumers' goods prosper and expand; other industries tend to lose some capital and labor. In fact, the capital consumption by government and business, in addition to the malinvestment of capital in inflated consumers' goods industry, creates a general shortage of capital. Interest rates soar. If the inflation is continued, interest rates will rise to astronomical levels, the purchasing power of money will fall, and the economy sink into deterioration and depression.

If the inflation should be halted before that dreadful finale, the economy will suffer the pains of readjustment. The inflated industries will contract, evidencing the symptoms of depression, stock prices decline, and interest rates fall. When the people are finally convinced that the inflation has come to an end, they may restore their normal cash holdings, which reaction tends to raise the value of money and reduce goods prices. And business will evidence more symptoms of recession.

Economists know all this. But they cannot know when the government will halt the inflation. After all, this is an arbitrary decision by the monetary authorities moved by political consideration, pressured by the beneficiaries of inflation, and misguided by inflationary doctrines. Even the monetary authorities themselves may not know whether and when they will make the decision. Will they really stabilize the currency or merely reduce the rate of inflation? When will they resume the inflation? At what rate? And finally, no one can foresee the reaction of the people. When will they increase their cash holdings? How much?

Credit Expansion

Credit expansion differs materially from simple inflation. Newly created money enters the loan market where it lowers the interest rate. The U.S. government may balance its budget, but in order to stimulate business and promote full employment it may flood the banking system with new credits. The lower interest rates induce business to embark upon ambitious projects of expansion and modernization, which leads to a boom in such capital goods industries as steel and tool making.

It is obvious that this boom lacks the real capital that flows from savings and profits plowed back. It is based on newly created money and therefore, sooner or later, must induce the feverish chills of a maladjusted economy. The boom activity pushes up the prices of capital goods which are business costs. Also, labor costs tend to rise, which leads to greater consumption expenditures and higher consumers' goods prices. But they usually trail behind the prices of producers' goods, which gradually reduce the profit margins of business. When the growing maladjustment of prices and costs finally inflict business losses, the depression begins. It is a period of readjustment and correction, in accordance with the true state of consumer choices and capital markets.

Many economists understand the causal connections of boom and depression. They know the irreparable harm done by credit expansion artificially induced in the structure of economic production. But they cannot possibly know the minds of the monetary authorities who initiate the credit expansion. How long will these men continue to feed the boom with more money? When will they finally be frightened by the consequences of their policies and decide to abandon them? Will they substitute credit contraction for expansion, or merely stabilize the money supply? Will they pursue the new course with conviction or waver between the new and the old? And when will the public realize that the signals have changed? What will trigger the stock market panic which indicates that the multitudes of investors are finally recognizing the change of signals and

rushing to adjust their investments to the new situation?

The Future Cannot be Calculated

There are no rules covering the political actions of man or fixing the time of his reaction. The future is uncertain, and therefore, it is impossible to calculate the future structure of the market. In fact, there are no constant relations in economics. For instance, the effects of a 10 per cent expansion of the money supply on goods prices is unpredictable. Prices may rise little or much, depending on the reaction of men to the inflation. A bumper crop of wheat that exceeds last year's crop by 20 per cent may cause prices to fall little or greatly, depending on the variable behavior of men. If a statistician ascertains that prices actually declined 5 per cent at a certain point of time in a certain market, he merely established a historical fact, no constant measurable relationship that is valid for all times and places.

In the natural sciences, the individual factors of change can be observed and measured in isolation. But no such isolation is possible in human action. Experiences are always complex phenomena that do not provide the factual bases on which theories and predictions can be built. They cannot be made "quantitative" and be measured.

Quantitative economics, as it is practiced by central planners and would-be dictators. also disregards the market process. Its equations merely describe imaginary states of rest and equilibrium. It cannot explain why and how such states are brought about and cannot analyze actions that bring changes to the market process. The quantitative economist cannot perceive the activities of enterprising men, the entrepreneurs and speculators, who continually rearrange economic production in order to profit from price changes. In short, the economics of central planners is incapable of dynamic analysis; it is static and therefore contributes nothing to the elucidation of the market process. It miscalculates the future every time.

Entrepreneurial Judgment

The world is a scene of changes. Today is not yesterday, and tomorrow will not be today. We ourselves change. How, then, can we foretell man's works and deeds of tomorrow? Change, indeed, is painful, yet ever needful.

Entrepreneurs as businessmen and investors speculate on economic changes. They expose their wealth and income to the changes in the market place. In anticipation of specific changes they rearrange their factors of production in order to prepare for future consumer wants. If they anticipate future changes correctly, they will earn entrepreneurial profits; if their judgments are wrong, they will suffer losses.

Genuine profits, which must be distinguished from interest on invested capital and managerial remuneration of the businessman. flow from the correct anticipation of future changes in demand and supply, resulting from changes in fashion and technology, government intervention. labor union policy, competition, and even the weather. On the search for such profits entrepreneurs must walk lonely roads, for profits can be found only where others have not prepared for changes and failed to adjust in time. When the multitude of investors arrives on the scene, the readjustment has been completed, and the opportunity for profit has disappeared. In fact, the multitude of late-comers usually

overreacts and thereby creates new maladjustments which necessitate more readjustments.

Entrepreneurs do not depend on economists for reliable information about the future. They are skeptical about economists' advice and prognostication. But they are ever mindful of the need for reliable information on all relevant data. This is why they read the financial pages of newspapers and magazines, subscribe to advisory services, employ business economists, listen to the promises of government officials and watch their actions. Nothing must escape them. But all the data gathered cannot remove the uncertainty of the future.

More than 1,500 years ago Saint Augustine offered this explanation: "God will not suffer man to have a knowledge of things to come; for if he had prescience of his prosperity, he would be careless; and if understanding of his adversity, he would be despairing and senseless."

Historical Analysis

IDEAS ON

IN RETROSPECT historical analysis tries to show us that the outcome could not have been different from what it really was. Of course, the effect is always the necessary resultant of the factors operating. But it is impossible to deduce with certainty . . . the future conduct of men, whether individuals or groups of individuals.

1970

Statist Bureaucracy in the Modern Economy

GARY NORTH

 \sim Where distinction and rank are achieved almost exclusively by becoming a salaried servant of the state, where to do one's assigned duty is regarded as more laudable than to choose one's own field of usefulness, where all pursuits that do not give a recognized place in the official hierarchy or a claim to a fixed income are regarded as inferior and even somewhat disreputable, it is too much to expect that many will long prefer freedom to security.

F. A. HAYEK¹

¹ The Road to Serfdom (Chicago: University of Chicago Press, 1944), p. 132.

16

SOCIOLOGY as a separate academic pursuit had its origin in the nineteenth century, beginning with the studies of Alexis de Tocqueville on American life and ending at the turn of the century with the contributions of Max Weber. Robert A. Nisbet has referred to this period as the golden age of sociology, and his book, The Sociological Tradition (1966), indicates why this should be the case. The basic themes of modern sociology were explored with insight, rigor, and creativity by those who deserve to be called the founders of the science, and contemporary scholars have generally been satisfied to refine, quantify, and expand upon the original contributions. (What we have gained in methodology has been paid for with the loss of lucidity in too many cases.) The major themes were all surveyed: alienation. mass democracy, centralization of power, revolution, secrecy, the problem of value and law, bureaucracv.

It would be safe to say that Max Weber, the German sociologist who is most famous for his essays on the Protestant ethic and the spirit of capitalism (1904-05), was probably the greatest social scientist who has yet appeared. His studies of Protestantism were

only a subdivision in his larger investigation into the nature of religion and its relationship to the growth of modern, specialized bureaucracies. The process of rationalization became the focus of his voluminous studies. He saw the process in the modern West as irreversible. Men of the West have. since the sixteenth century, insisted on viewing the earth as something to be subdued through the application of rational technique - sophisticated mathematics, applied science, technology, systematic measurement. Increasingly, all spheres of human and animal existence are being brought under the operation of rational technique. The spiritual life of man is relegated to the confines of the "inner man," impotent to alter the direction in which rationalization is leading.

Security vs. Freedom

Weber saw the implications of this process which gave man greater security from nature but less and less freedom of action. In 1918 he spoke these words to students at Munich University:

The fate of our times is characterized by rationalization and intellectualization and, above all, by the "disenchantment of the world." Precisely the ultimate and most sublime values have retreated from public life either into the transcendental realm of mys-

Mr. North is a Ph.D. candidate at the University of California, Riverside.

tic life or into the brotherliness of direct and personal human relations.²

Men flee to the old churches, or to intimate artistic expression, or into mysticism. Weber commends this, and he warns against the faith in scientific, academic solutions to all problems. His pessimism is almost overwhelming: "Not summer's bloom lies ahead of us, but rather a polar night of icy darkness and hardness, no matter which group may triumph now."³

Bureaucratization is upon us, Weber believed, and there is no longer any way to escape its effects. Rationalization gives us our material wealth, but it robs us of our traditional values and institutional arrangements. In this regard, Nisbet's comment on Weber's view of Marx is revealing:

For Marx, capitalism was characterized by the privateness of ownership of property and the separation of the population into the two groups of owners and workers. For Weber, these elements are more nearly accident than essence. Moreover, and here is where Weber differed profoundly and lastingly from the Marxists, socialism, far from being the opposite of capitalism, would be only an intensification and widening of the essential properties of capitalism. Under socialism, rationalization, bureaucracy, and mechanization would become even more dominant in human lives than they are under capitalism.⁴

We shall see later in this essay that Weber's analysis was marred by a fusion of two very different types of bureaucracy, thus leading him to conclude that the capitalistic bureaucracy is only a less intensive form of the socialistic form. But his point against Marx is a vital one: the mere application of proletarian revolution to the process of rationalization will do nothing to make that process more personalistic.⁵ The centralization of power involved in all socialist planning will only make things less flexible.

Profit and Risk

Frank H. Knight's classic study, Risk, Uncertainty, and Profit (1921), presents the most useful explanation of profit that any economist has yet produced. He has been followed in his exposition by Professor Mises. Only if we can conceive of a world in which all planning, acting men are

² Max Weber, "Science as a Vocation," in H. H. Gerth and C. Wright Mills (eds.), *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946), p. 155.

³ Weber, "Politics as a Vocation," (1918), *ibid.*, p. 128.

⁴ Robert A. Nisbet, *The Sociological Tradition* (New York: Basic Books, 1966), p. 145.

⁵ Cf. Gary North, Marx's Religion of Revolution (Nutley, New Jersey: Craig Press, 1968), pp. 111-17.

omniscient can we imagine a world without profits and losses. Profit in such a world would equal loss - at zero. (Mises says that this world would still require an interest rate, while Knight denies it, but that is an extraneous issue for the purposes of this essay.) Profit. in this perspective, is a residual accruing to those individuals or organizations that successfully forecast the state of a market at some future point in time. The successful forecaster-planner is rewarded, since it is he who bears the risks of planning. The bearing of risk in planning is what economists call the entrepreneurial function. The term "manager" is generally used to specify the administrator of the plans handed down by the entrepreneur. In practice, the two roles may be intermingled, but for theoretical purposes it is useful to separate them.

Thus, as scientific planning techniques become more accurate, there should be a reduction of the realm of uncertainty. Forecasting techniques become more rigorous, and the very presence of a free market reduces the arbitrary elements in the economy. The scale of both profit and loss is narrowed; the reduction is proportionate to the reduction of uncertainty. Profits and losses will always be with us, simply because men are neither omniscient nor omnipotent; if they were, socialist planning techniques would be just as efficient as the free market is. That fact is the best argument against socialist planning.⁶ Profit and loss are tied in with the operation of a free market which keeps fallible human beings laboring to overcome their deficiencies. No other system works so well.

Two Types of Bureaucracy

If the foregoing is accurate, why should we find so much inefficiency, so little competition among large firms, such utter bureaucratic incompetence, computer errors, and other signs that our economy is rewarding the less capable members? Why should economic irrationality be doing so well against the efforts of entrepreneurs to conquer it?

The existence of monopoly is one reason. Monopoly is a phenomenon which most governments not only tolerate but actively sponsor. Some of them we generally accept as part of the price paid for progress; an example would be the monopoly returns insured to developers by government-guaranteed patent rights. Copyright laws are another case in question. But the more absurd examples are the

⁶ F. A. Hayek (ed.), Collectivist Economic Planning (London: Routledge and Kegan Paul, 1935); North, Marx's Religion, Appendix A.

monopolies and oligopolies created by tariffs, such as an "infant industry" like the steel industry which wants protection from foreign competition. Tariffs invariably reward the inefficient producers at the expense of the efficient.⁷ Then we have the monopolies that are insured against new competitors entering the field by laws establishing "fair trade" procedures that ultimately favor those businesses already established. These have been popular with big business for a century.⁸

Ludwig von Mises has offered a theory of bureaucracy that provides us with another explanation of today's inefficient firms. His discussion complements Weber's and improves upon it. Mises argues in his little book, *Bureaucracy* (1944), that there are two primary models of bureaucracy: (1) the free market structure; and (2) the statist bureaucracy. Both are necessary, he says; both perform valuable, but very different, functions. One form cannot be used to perform the tasks more suited for the other. It is an unwarranted mixing of the two categories, we can conclude, that has led to the creation of a weakened free market.

How Financed?

The key difference between the two models is the difference of finance. The question that we must always ask in assigning a task to either is this: how does it receive its operating funds? If this is not asked in advance, there will inevitably be created a system which will not be able to do its job efficiently.

The free market bureaucracy operates on an open market that permits the entrance of competitive structures. Whatever profits it makes or losses it sustains will be determined by its ability to satisfy consumer demand. Assuming that it stays within the framework of law established by the state, the only question that it must ask is whether or not its income exceeds its expenditures. The free market permits its bureaucratic structures to fail if they do not meet the needs of the buying public. Thus, the top level of any bureaucracy has a guide to the performance of the lower levels. especially with those levels connected with sales: are they pro-

⁷ Gary North, "Tariff War, Libertarian Style," THE FREEMAN (August, 1969).

Stoffe, THE FREMAR (Rugas, 1969). ⁸ Gabriel Kolko, The Triamph of Conservatism (New York: The Free Press, 1965); Walter Adams and Horace M. Gray, Monopoly in America: The Government as Promoter (New York: Macmillan, 1955); Robert M. Hurt, "Antitrust and Competition," New Individualist Review (Winter, 1962); articles on the ICC, FCC, and CAB in ibid. (Spring, 1963); James Mofsky, "Blue Sky Laws," Duke Law Review (July, 1969).

ducing profits or losses? Any bureaucracy must be hierarchical; the important differentiating factor is the set of guidelines used by the top level to evaluate the performance of the lower levels.

The standard of measurement in this case delegates to the lower levels considerable responsibility and therefore a more extensive flexibility. The lower levels are expected to know the conditions of supply and demand - the particular markets - far better than bureaucrats at the top level can possibly know them. Thus there is an integration of knowledge: the top level assigns the general goals - products needed, aggregate estimates of expenditures and possible profits, the prospective operation of the company as a whole – while the lower levels try to fulfill their basic responsibility. namely, to turn a profit. If they do turn a profit, they are left alone by the upper levels; if they fail, they can inform the upper levels of any corrections needed at the top, or else they can be replaced. The free market bureaucracy, in short, possesses greater flexibility than the statist form because it is subject to the possibility of *failure*. Its income is therefore dependent upon its success or failure on the market.

The *statist bureaucracy* operates under a totally different system of

financing. Its expenses are met by the state. Therefore, the responsibility of the managers of this bureaucracy is to see to it that all the income received is spent only on those items budgeted in advance when the operating budget was originally drawn up and approved by the state. The statist bureaucracy has fixed budgets and is not subjected to the competition of an open market. Thus we find the top level of the hierarchy concerned with the disbursal of the appropriated funds: is the money going to the proper subordinate level; is it being spent as previously approved; is all the money accounted for on the proper forms? By the very nature of the structure, there can be very little flexibility permitted to the lower levels, and the upper levels must see that all goes according to the previously approved plan. The task of the upper level is supervisory, not in the sense of evaluating profit and loss, but supervisory in the sense of *control*. The premium is placed on accurate reporting of control data; the goal is total predictability. This is inherent in the very nature of the statist bureaucracy. It has to be, as Mises points out. The state wants to be certain that its appropriations are being spent as legislated.

There is nothing wrong with the statist bureaucracy as a type.

We must be certain, however, that it remains within those spheres of activity that require a bureaucratic structure that is totally predictable. This is precisely what Havek calls for in his Constitution of Liberty (1960). The essence of a free legal structure is one which operates on all equally, and which is predictable by the citizens in advance. This is what permits competition on the free market: the rules of the game are known in advance. The place where you do not want arbitrary actions is in the administration of justice. Thus. the statist bureaucratic structure is not in opposition to this aspect of a society; we do not want to see justice decided by the sale of it to the highest bidder (as would be the case with a free market bureaucratic structure).

The danger comes when the statist bureaucracy is called upon to handle the tasks met most efficiently by the free market. When commodity production is involved, or services that are something other than the services of the legal framework and its enforcement, then there will be signs of breakdown in a statist bureaucracy.

Spillover Effects

What we have been witnessing in America for at least four decades is the gradual encroachment on the private sectors of the economy by the state. Naturally, the state must administer its operations through a bureaucratic structure. The only structure it can use is one described best by Mises' second model. The flexibility and competitive nature of the free market bureaucracies is being replaced by the less flexible. administration-oriented statist bureaucracy. Increasingly, the possibility of profit and loss is less a function of accurate economic forecasting than accurate *political* forecasting. Ayn Rand is correct: we are creating an "economy of pull." Political manipulation. especially in the large corporate structures, is the key to survival,

We live in a world of scarcity. Men are forced to compete for the things that are scarce. They may be captains of American industry competing on a free market; they may be Soviet commissars competing in terms of a socialist structure: but they will compete if they wish to maintain their control of scarce economic goods. The question that men must ask is this: what are the success indicators by which my performance will be evaluated? If the goal is oriented toward the political, they will compete in political ways; if the goal is production in terms of a voluntary market, then they will compete economically. The political goal will place a premium on

obedience to the state's stated goals rather than the (as yet) unstated demands of a future free market. Socialism, in other words, tends to create men who obey what has been handed down to them in the past; the free market is aimed at what entrepreneurs think will be demanded in the future. The first requires obedience rather than creativity. This is socialism's nature.

Here. it would seem, we find a likely explanation of the transformation of American industry. The statist bureaucracy demands that all subordinate branches conform to the stated goals of officialdom. It creates a demand for men who can follow. Mises makes a good point in his book, Socialism: the goal of the statist is to see the whole world inhabited only by officials.9 Innovative capacities are not utterly ignored, of course, but they tend to be de-emphasized if they come into conflict with other goals, such as the smooth operation of the bureaucratic structure. Clearly, any bureaucratic structure tends to favor smooth operations, but only a bureaucracy insulated from failure can afford to see this goal fully achieved.

With the advent of "cost-plus" financing – a development of war-

time, centralized planning - corporate structures have learned to live in terms of competition based on stated goals. In a sense, today's competition is increasingly the competition of the engineer: given a certain goal, how can it be produced most cheaply? Submit bids. win the contract, and then get every member of the "team" to keep his costs in line with the projected study (well, maybe not quite in line – a little extra expenditure never hurt anyone. Right?) This kind of competition is unlike the competition of the entrepreneur: what kind of product should we produce, given a future market that is not certain? This latter kind of competition involves risk, because it involves uncertainty. The more the state is the purchaser on the markets, the more this kind of risk-taking individual will find his world eroding. The demand will be for the engineer, the official, the manager, i.e., the man who can follow orders.

Case Studies

A friend of mine is an engineer, but one who appreciates the entrepreneur's function. He developed a certain kind of seal while he was working with a company dealing with such mechanical parts. The seal was more efficient than the competition's, but the competition had the market controlled. How to

⁹ Ludwig von Mises, *Socialism* (New Haven: Yale University Press, [1922] 1953), pp. 208-09.

get the information of the new seal to the competition's buyers? He estimated that if the top salesman with the other firm could be lured away, that man could get maximum distribution of the new seal in two years time, as compared with five if he were not hired, a saving of three years of marketing development. The man was known to be ready to change. since his own company was not going to let him climb much higher. He made \$18,000 a year; he offered to come over for a 10 per cent commission, with nothing owed to him in the first year unless he succeeded in selling \$200,000 worth of the parts. He was refused. Then he said he would work for a straight \$20,000 plus a small commission. He was refused. He was offered \$19,500. The reasoning: "No salesman working for this firm makes over \$15,000 per year, and no salesman could be worth \$20,000!" For the sake of \$1,000, the company lost a chance to save three years of marketing development. The \$500 a year became a symbol; the symbol meant more than sales. This is the mind of the statist bureaucrat. That mind is what is being produced today by our schools and our industries.

Another example is even more revealing. A certain Japanese firm was ready to "invade" America with high quality technical products which met or exceeded the best American firm's parts at a cheaper price. The key to the success of the operation was again marketing. The parts were able to be purchased by almost any firm making machinery; there are so many of these firms that American producers believed it would take literally decades for the Japanese firm to get into the position of a threatening competitor. They sat on their hands, unconcerned. The Japanese firm decided to get the marketing devices - the salesmen - of the other firms. They did it with an occult phrase: "We pay double." Ah, those orientals: inscrutable! The American firms began to threaten the Japanese firm with lawsuits: unfair business practices was the cry. To no avail, as it turned out.

Hayek warned us 25 years ago that in a statist economy, the quest for security would become paranoiac. Men are trained, paid, and respond in terms of a system that demands conformity and supplies security.

It is no longer independence but security which gives rank and status, the certain right to a pension more than confidence in his making good which makes a young man eligible for marriage, while insecurity becomes the dreaded state of the pariah in which those who in their youth have been refused admission to the haven of a salaried position remain for life. 10

Education

The university has been a bureaucracy of the statist typology from the day that professors stopped being supported by the voluntary contributions of their students (which was normal in the twelfth century). With the advent of tenure, closely followed by state financing and Federal grants. the college professor has become a bureaucrat so safe that only the functionary of the larger taxexempt foundations can claim to be more insulated from competition. This is equally true of the professor on the private campus, given the financial position of taxexempt endowments. These men. as we might expect. train our youth in terms of the ideals which they themselves hold. American corporations are more and more involved in sales to the state, and therefore they begin to adopt the control characteristics of the statist bureaucracy. They need people to staff their posts. Thus we find the overwhelming number of graduates from our universities going into three main areas of employment: government service, college or public school teaching, and large corporations. That is what they

have been trained to do; that is what the state pays for and the large corporations want.

Karl Jaspers once described the university's faculty, but he described at the same time almost any bureaucratic structure that does not compete on an uncertain market. It tends to drift toward mediocrity. It avoids hiring incompetents, since that would reflect badly on the bureaucracy's ability to screen its candidates. thus encouraging outsiders to step in and take over hiring practices. On the other hand, it tries to avoid hiring the really competent. for these types will reveal the lack of competence on the part of their colleagues. In an insulated bureaucracy, the premium is on mediocrity.

Penalties for Creativity

What we find, as a result, is the degradation of education in our nation. Creativity is regarded as deviant behavior and a threat, both in professors and students. The structures are not geared to reward creativity. A minister I know is musically gifted. When enrolled in the M.A. program of one of America's most respected universities, he offered as his M.A. thesis an original chorale. As an M.A. in music, one would expect a man to be a creative musician and/or composer. The thesis was

¹⁰ Hayek, Road to Serfdom, p. 130.

rejected. He was told that it was all right as a piece of music, but he was expected to submit a work of scholarship, with footnotes and some sign of original research. Such is the curse of the modern university. Its ground of total insulation - academic freedom - is based on one false, but at present accepted, hypothesis: education can be neutral and therefore legitimately supported by coerced state taxes. It therefore avoids all signs of creativity, which in turn might reflect a concept of truth (and truth, we all know, is tainted with religious value); professors hide, desperately, in the safe cloak of academic methodology, the only truth they recognize.

The result has been the creation of swarms of graduates so beautifully described by a 1968 college yearbook:

Like ghetto children who drop out of school to get \$35 a week jobs, they are unable or unwilling to engage in plans for long-range accomplishment or amelioration because they have no philosophical referents, or ways of coping with, that sort of thing. Many, perhaps most, of them develop the defense of smugness, of pretending that they have accomplished something already with their diplomas and technical vocabularies. And for the others, if revolution and anarchy seem too often to be their choice, it is because in this century, revolution is the most familiar way in which history manifests itself, or seems $to.^{11}$

The relativism of the classroom has done its work. It has created methodological drones, adept at sentences beginning with "on the one hand." and ending with "but on the other." The hackwork of methodology is all the schools can impart. with one exception: the student also learns that all truth other than today's prevailing methodology is relative. This relativism breeds nihilism in the consistent students: if all standards are equally true, they are all equally false, so destroy them and build something new. Thus the best students tend to become revolutionaries, at least for a time, and the others become drones. It is the death of culture. The university, which was originally intended to preserve and create, today is best equipped to destroy; that's what we pay for - and what we get.

The Solution

There can be a reversal of this destructive trend only with the reestablishment of conditions that permit private failure. If this is not done, then the failure will be collectivized, centralized, and compounded throughout our entire culture. The failure will be general, hierarchical, and total, just as our

ļ

¹¹ University of California, Riverside Tartan (1968), p. 145.

statist bureaucratic structures are. If failure is not seen as one of the basic human rights, then we shall witness an institutional "failure of nerve," just as the Greeks did. Gilbert Murray's *Five Stages of Greek Religion* will serve as our epitaph, as well. The unbridled quest for security will give rise to total insecurity. The warning Hayek has given to us regarding the fate of Germany and Italy in the 1930's should be heeded:

While the younger generation, out of that contempt for profitmaking fostered by socialist teaching, spurned independent positions which involved risk and flocked in ever increasing numbers into salaried positions which promised security, they demanded a place yielding them the income and power to which in their opinion their training entitled them. While they believed in an organized society, they expected a place in that society very different from that which society ruled by labor seemed to offer.¹²

When the bureaucrats revolt, who will be left to run the system? If all bureaucracies have been lured by the promise of security to imitate the structure of the controlled, statist bureaucracy, the seeds of institutional creativity will have long since been scattered to the wind. The whole world, indeed, will be inhabited by no one except officials.

Weber was wrong. The process of rationalization, in the way he described it, cannot go on. He saw the development of all bureaucracies into the overarching socialist type. If this happens, and if the free market's bureaucracy cannot be rediscovered and reinstituted as the foundation of our economic system, then the process will stop; it will be reversed in a cataclysm of failure. The process is not self-sustaining: rationalization can go on only so long as men seek to subdue the earth rather than each other. Convince the masses that the system is out to subdue them (rather than their neighbors), and a massive impulse will be created to destroy the system. Rationalization is simply a product of rational minds: remove the rationality and creative impulses from the system, substitute the drone who does not understand the rationalization process, and the process will stop. And that stoppage, given the degree of specialization and interdependence of today's economy, will be costly bevond our imaginations.

Failure, in short, is the inescapable concomitant of life. It is a basic human right. Remove the right to personal failure, and you dehumanize mankind; a dehumanized mankind cannot hope, as a collective entity, to do anything but fail. Hayek's point is well

¹² Hayek, op. cit., p. 117.

taken: "Thus, the more we try to provide full security by interfering with the market system, the greater the insecurity becomes; \dots "¹³ It would seem that we are on the brink of total insecurity. ¹³ *Ibid.*, p. 130. We must convince men that they are personally responsible for their actions, and with responsibility alone comes true human freedom. The right to fail, like the right to succeed, is one of mankind's most fundamental rights.

Reflections on the Guilt Complex

LEONARD E. READ

ANYONE who has the slightest idea of how freedom works its wonders — thus having a faith in free men — cannot help but be appalled by the increasing number of affluent individuals who support welfare-state concepts and programs.

The cause often ascribed for this apostasy – this turning away from the free society by those it has raised to positions of affluence – is that the wealthy are victims of a guilt complex. They are ashamed to be more successful than their fellowmen! Personally, I believe this to be a fallacy; further, it is a mischievous explanation and we do injury to the



freedom philosophy by excusing these apostates in this manner.

A wealthy friend suggests a state minimum wage law so high that tourist accommodations in his area will no longer be financially feasible; he wants his beautiful countryside uncrowded and uncluttered. A statist position in order to have his little world to himself! This, for certain, is not a guilt complex.

Or, here's a suspicion of mine: Turning to welfare statism is purely a pose assumed by many affluent persons – often unwittingly – to shield themselves from a growing number of socialistic critics. They pose as welfare statists or profess to be in business for "the social good" rather than for profit; saying, in effect, to those who covet their affluence, "See, I'm on your side and doing all in my power to bring you to my level." This is far from a guilt complex.

Now and then there may be a business mogul or an inheritor of wealth who actually believes that "from each according to ability ... to each according to need" leads to social felicity. But we cannot call the advocacy of this Marxian tenet a guilt complex.

There is little point in tracing causation further. The causes are far more numerous than the number of apostates, for each of them is led down the primrose path to socialism by more reasons than anyone else can fathom or than he himself is aware of. All of these countless defections are either immaturity or a lapse of judgment - thoughtless drifts that are as common to those who "have it made" as to those who haven't. However, in no instance do we uncover a guilt complex.

Suppose that Success Were a Mark of Distinction

Suppose that affluence were a mark of distinction – that getting ahead of others, becoming rich through voluntary exchanges, or making big profits brought not criticism but applause, acclaim, esteem from everyone. Were this the case, would the affluent among us be apologetic for their success, that is, would they have a guilty feeling? Indeed, they would not! Instead, they would be basking in their glory.

Or, look at it this way: If some person's guilty feelings bred an uncontrollable compassion for others — as the Bible puts it, "this man's possessions were weighing him down" — any individual so afflicted could sell his possessions and give to the poor. Until we see such voluntary charitable behavior on the part of an affluent person, let us hear no more about a guilt complex as an explanation for his apostasy!

Sell his possessions and give to the poor! What, really, are the wealthy doing when they side with welfare-state concepts and programs? The very opposite! They are advocating that your and mypossessions be expropriated and given willy-nilly, more often than not with injury to the poor. This posture may, on occasion, gain approval or silence criticism but only because so few see the sham in it. If the naked truth were apparent to all, would an affluent person so unfavorably expose himself? Of course he would not! Only professional comedians try to make a laughing stock of themselves.

Affluence Gains Publicity

Why put so much emphasis on the apostasy of the affluent? Why not equally on the apostasy of those in the middle or lower brackets?

In all frankness, this apostasy - by the rich or by the poor -may be fairly and accurately diagnosed as an utter lack of understanding, a failure to grasp the most simple and basic economic relationships of cause and effect, of human action and its consequences.

This is not to suggest that persons of affluence are either more or less prone to these lapses into medieval or primitive ways than those on the lower rungs of the economic ladder. Understanding is not advanced or retarded by the rise or fall of bank balances; there is no correlation between the two.

But an affluent person – usually well known – packs more weight than a poor person. The views of a captain of industry or finance or whatever are much publicized, whereas the views of a person who hasn't "made it" yet may go unheard or unheeded, even by his family. The "higher-ups" make news, and to the extent that they defect from freedom principles they infect more than their fair share of fellow Americans. This is why the apostasy of the affluent merits special attention - and disapproval, not acclaim.

Fortunately, each of us has it within his own power to immunize himself against economic sophisms and fallacies. We need not be misled in economic theories and practices by a spreader of nonsense, whether he be affluent or poor.

No genius is required to see clearly that an unhampered market economy best fulfills the peaceful wants and ambitions of everyone involved. Each best serves himself by serving others, producing his own specialty, trading for theirs. To be ashamed of success under such a creative arrangement, is to be sick of mind. The market does, in fact, handsomely reward those who best serve others, and the others ought to know and welcome the result, be glad and proud of it. for their very lives depend on this.

The alternative to which men turn in their failure to understand is a coercive tyranny that condemns mankind to slow starvation. This is not really a concern for the poor; it is not a guilt complex!

A Law for Governments



ACCORDING to the lore of our time. business monopolies are highly dangerous - so dangerous in their threat to the commonweal that they must either be prevented or regulated and controlled. For many years, attention has been focused on the supposed untoward character of business activities and of how the innocent may fall victim to them. This emphasis has drawn men's eves and attention away from both the source of harmful business monopoly and the noncommercial monopoly which poses the greatest threat of all to the peace and well-being of peoples. That is the monopoly which government has -the monopoly of the use of force in a given jurisdiction. All other monopolies pale before this one in the potentialities for destructiveness, and it is this power alone which can give to business activities potentialities for continued and concerted damage.

Yet, government is not only a great potential danger but also a necessity. Unless somebody has a monopoly of the use of force in a given jurisdiction, there is likely to be more or less continuous warfare as groups contend for control. That there be a monopoly within a jurisdiction is necessary for peace, and government is also charged with keeping the peace with preventing aggression from abroad, with putting down domestic insurrection, with inhibiting assault, deception, and with settling disputes which may arise. In short, government is not only potentially dangerous but also potentially highly beneficial. In any case, it is necessary.

The dangers of government are manifold: that it will be despotic,

Dr. Carson, a frequent contributor to THE FREEMAN, is Professor of History at Grove City College in Pennsylvania.

arbitrary, tyrannical, confiscatory, dictatorial, weak and ineffective, strong and overbearing, aggressive, destructive of life and property, playing favorites, and so on. Nor is there an abuse of which those who govern are capable that has not many times been practiced. Rulers have from time immemorial perpetrated aggressive war, deceived their own and other peoples, raped and ravished, stolen and confiscated, put the innocent to death, and allowed the guilty to run loose and wreak havoc. To sav that governments have also dispensed justice and maintained the peace is equally true, but it should not mislead as to the inherent dangers of such an instrument.

The existence of government poses a grave and recurring danger. It poses a problem, too, which may be stated in various ways. How shall this force of government be contained and restrained? How shall those who govern - for after all, the danger that government poses arises from those who govern - be kept from acting arbitrarily and despotically? How shall those who make, administer, and interpret the laws themselves be brought under the law? This last is, in essence, the question as it should ever be posed. It should be clear that there is no easy answer to it, nor is it likely that the problem will be finally solved. Government operates by the exercise of power. To do its job effectively, it must have a monopoly of the use of force in a jurisdiction. Yet such a monopoly makes it most difficult to bring government under the law. There must first be a law for governments. Then, devices must be found for inducing those who govern to abide by the law.

Natural Law and Constitutions

In modern (post Renaissance) Western civilization two intertwined devices have been employed to bring those who govern under the law – to establish a law for governments. The first – and most fundamental – of these is the natural law theory. The second is the device of having a written constitution.

These methods did not arise in a vacuum. Instead, there were compelling circumstances for coming up with some means of bringing rulers under the law. The major political trend in many European countries was toward absolute monarchy in the sixteenth and seventeenth centuries. This meant, in theory, that all power issued from the monarch and might be claimed by him. Also, it tended to mean that there was nobody to hold the monarch in check, or make him subject to the law. The inevitable result was rule at the whim of the monarch – arbitrary and despotic government. Not everywhere and at all times was it equally the case, but it was certainly the dominant trend.

The natural law theory provided the foundation, in these circumstances, for bringing government under the rule of law, for delimiting the powers of the monarch most particularly. Here was a law above and beyond the power of monarchs to alter and to which they, like other men, were subject. Natural law theory was not. of course, new to the sixteenth and seventeenth centuries. It had been effectively formulated by the Roman Stoics, and following that formulation became a part of the heritage of Western civilization. It received new impetus not only from the need to find some means for circumscribing the powers of monarchs but also from Renaissance humanism and the scientific developments of the seventeenth century.

Some of the early spokesmen for natural law theory on the continent of Europe were Hugo Grotius (1583-1645), Samuel Pufendorf (1632-1694), and Jean Bodin (1530-1596); in England, Richard Hooker (1554-1600), James Harrington (1611-1677), and Algernon Sidney (1622-1683). From these, and others, it entered a general stream of thought to be espoused by such continental European, English, and American thinkers as Burlamaqui, Vattel, Beccarai, Locke, Blackstone, Montesquieu, John Wise, Jonathan Mayhew, and Thomas Jefferson, until it was the dominant mode of thought in the eighteenth century.

A Law Antecedent to Man

Basically, the modern natural law theory held that there is a law antecedent to man. society. and government, that this law is from God, that it is a law which must be observed if each of these is to reach its true form and fulfillment. It is discovered by attending to the nature of things. and when one attends rightly to the nature of things, he is using right reason. When man's nature and the nature of the universe are viewed in this fashion, it is found that man has certain natural rights: namely, the right to life, to the use of one's faculties, and to the fruits of one's labors. Society is natural to man - man is a social being - for within society he can make those exchanges which satisfy and complete him. In like manner, government is necessary for man, for it enables him to live in peace, to have fruitful relations with others, and keep what is his.

The great thrust of modern natural law thought was to limit government to its proper sphere. One historian of natural law says, "Now the primary practical object pursued by the theorists of Natural Law was the delimitation of an area within which objective Right should be withdrawn from the caprice of the legislator, and subjective Right should escape the attacks of the State's authority. . . . It was thus with a new and unprecedented force that the theory of Natural Law was able to enter the domain of public law. . . .^{''1}

That the natural law set bounds to the actions of government was the import of what many of the theorists had to say. Hugo Grotius declared that "it is beyond controversy among all good men that if the persons in authority command anything contrary to Natural Law or the divine precepts. it is not to be done.... First, those rulers who are subject to the people . . . , if they transgress against the laws of the State, may not only be resisted, but put to death. . . . $"^2$ Burlamagui maintained that "if the abuse of the legislative power proceeds to excess, and to the subversion of the fundamental principles of the laws of nature, and of the duties which it enjoins, it is certain that under such circumstances, the subjects are by the laws of God not only authorized, but even obliged to refuse obedience to all laws of this kind."³ John Locke particularized "the bounds which the trust that is put in them by the society, and the law of God and nature have set to the legislative power of every commonwealth, in all forms of government."⁴

Natural law theory would not, of itself, bring governments under the law. Natural law has presumably been in existence since the beginning of time. Nor have great thinkers from time to time been wanting in their understanding of its precepts. But as a theory, the natural law does not and has not prevented arbitrary and despotic government. The second step in bringing under the law those who govern was to specify the laws for those who rule in a particular state - to have a constitution.

The British Model

The British pointed the way to constitutional government. Indeed, the British had a long history of attempting to subject their government to the law. Most of this

i

¹ Otto Gierke, Natural Law and the Theory of Society, Ernest Barker, trans. (Boston: Beacon Press, 1957), p. 39.

² Wilson O. Clough, ed., Intellectual Origins of American National Thought (New York: Corinth Books, 1961), pp. 174-75.

³ Ibid., p. 194.

⁴ Ibid., p. 159.

effort was devoted to making the king rule by and observe the law. The question was usually phrased in this way: Is the king above the law? Sir John Fortescue, the leading legal mind of fifteenth century England, maintained that the king was not above the law. But Fortescue was not taking a novel position in English history, though he may have taken it more pointedly than had his predecessors. It had been made dramatically clear at least two centuries before that the king should not be considered above the law. The main thrust of the Magna Carta which King John signed in 1215 was his acknowledgment that he must observe the established legal procedures in his acts.

The matter came to a head once more in the seventeenth century, and more famous documents were added to the English constitution. The Stuart kings claimed absolute powers, and their subjects took action to restrain them. Charles I subscribed to the Petition of Right which spelled out new limitations on his power. The Bill of Rights, proclaimed in the latter part of the seventeenth century, settled the matter definitively. The king was brought decisively under the law.

It was never made so clear, by documents, however, that the other branches of government were un-

der the law. The great model of a constitution which set forth a thoroughgoing law for government is the United States Constitution. supplemented by the constitutions of the states. Here, for the first time effectively, a law for all branches of government was committed to paper. That the United States Constitution is a law for the government it authorizes must not be generally understood. Yet that is what it is. Every one of the original passages deals with the powers of government, with the authority of those who govern, or with how they shall be chosen. for how long they shall serve. what their qualifications shall be, and how the Constitution shall be ratified and amended. The Constitution is not a law for the citizenry, except in respect to how they shall be governed and what political procedures shall be followed. It is a fundamental law for government.

Limitations upon Government

This character of the Constitution may be clearly shown by quoting a few passages from it. Article I, section 1, reads: "All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives." The remainder of that portion deals with qualifications of legislators, the conduct of their business, and the extent of the legislative authority. Article II, section 1, reads: "The executive Power shall be vested in a President of the United States of America. He shall hold his Office during the Term of four Years, and, together with the Vice President, chosen for the same Term, be elected, as follows. . . ." There follows a description of the mode of election, the qualifications for the office, how the President may be replaced, and a listing of his powers and duties. Article III, section 1, begins: "The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish." This, too, is followed by an account of the authority and jurisdiction of the Federal courts.

Article IV as well as parts of Article I deal with prescriptions for and limitations on state governments. For example, Article IV, section 1, says: "Full Faith and Credit shall be given in each State to the public Acts, Records, and judicial Proceedings of every other State. And the Congress may by general Laws prescribe the Manner in which such Acts, Records and Proceedings shall be proved, and the Effect thereof." Article I, section 10, contains such points as these: "No State shall enter into any Treaty ...; coin Money; emit Bills of Credit ...; pass any ... Law impairing the Obligation of Contracts..." Article V sets forth precedures for amendment.

Article VI proclaims all earlier debts of the United States valid, declares that all laws and treaties made under the authorization of the Constitution the supreme law of the land, and prescribes the oath binding upon all officers of the United States and of the several states. Article VII simply prescribes the method and how many states shall be necessary for ratification of the Constitution.

It is the fact that the Constitution is a law for governments that makes it so important that its provisions be rigorously observed. It is important, of course, that private individuals abide by the law. It is even more important that those who govern abide by the law, for when they act lawlessly they do so with the full force of government.

Separation of Powers

Drawing up a law for governments was one thing; getting it observed was something else. The answer to monopolistic abuses in private industry is competition. If a company does not serve well, or its products are exorbitantly priced, in a free market others may enter the field and subject that company to the discipline of the marketplace. There is not so ready a solution to the problem posed by a government's monopoly of the use of force. Direct competition among governments is a thing to be avoided rather than sought, for direct competition in the use of force is warfare.

Yet, it is possible to use the competition principle in a modified form without inviting perpetual warfare. One way that this has been done is by the separation of powers within the government so that those who govern may check and restrain one another. The famous formulation of this doctrine was made by Montesquieu in *The Spirit of the Laws*. He reasoned in this fashion:

When the legislative and executive powers are united in the same person, or in the same body of magistrates, there can be no liberty; because apprehensions may arise lest the same monarch or senate should enact tyrannical laws, to execute them in a tyrannical manner.

Again, there is no liberty if the power of judging be not separated from the legislative and executive powers. Were it joined with the legislative, the life and liberty of the subject would be exposed to arbitrary control; for the judge would then be the legislator. Were it joined to the executive power, the judge might behave with all the violence of an oppressor. 5

Looking at it in another way, the separation of powers principle may be seen as a means of inhibiting tyrannical power by bringing those who govern under the law. Whereas, if the powers are joined in a single body, there would be nobody to see that it observed the law.

American Federalism

The British government was thought by Montesquieu to embody the separation-of-powers principle in the eighteenth century. So it did, for the monarch was reduced mainly to the execution of the laws, Parliament enacted the laws, and there was a more or less independent judiciary. Americans accepted Montesquieu's formulation as an article of belief and separated the powers of government both in the United States Constitution and in those of the states.

Americans went further than this in retaining as much of the competitive principle as practicable in order to keep government under the law. They set up a federal system of government, one in which the powers of government were dispersed among the general and the state governments. Each of these governments was to have

⁵ Ibid., p. 186.

a jurisdiction over the citizenry under it. This made it so that a grasp for power by those in one government would tend to endanger the powers of those in the other. They might be expected in their own interest to resist expansions of power and hence restrain each other.

Checks and Balances

An even more subtle form of competition is inherent in the republican form of government established in the United States. Those who govern derive their tenure from the consent of the people, either directly or indirectly. That government be under the law is a condition of the liberty of the people. That is, an increase in the powers of government will be at the expense of the people, or some portion of them. Hence, the electorate may be jealous of their own prerogatives and resist the extension of government power. At the least, they may turn out of power those politicians who have displeased them when they come up for election.

Under the influence of Britain and the United States other peoples turned with a will to the task of establishing a law for their governments in the nineteenth century. Constitutions were drawn up, elective legislatures set up or buttressed, powers balanced

and checked, and arbitrariness restrained. Limited governments provided for more liberty than most peoples had ever known. In many ways, this movement toward constitutional government reached its peak - and its virtual culmination - in the wake of World War I when the old autocratic governments were overturned, the territories of empires carved up into nation-states. and constitutions adopted which were supposed to provide extensive liberties for the inhabitants.

Twentieth Century Reformers Revert Toward Tyranny

But a counter tendency had already set in, one which would eventuate in new tyrannies, arbitrary governments, dictatorships, and oppression. The first peoples to fall under the new despotism were the Russians, with the establishment of the Soviet Union in the early 1920's. They were followed by the Italians. Germans. and many others in various degree. Behind much of this thrust was not only the age-old desire of those who govern to be unlimited in their exercise of power but also a rationale for the concentration and exercise of power. That rationale can be called, generically, socialism, though it is known also as communism, fascism, collectivism, syndicalism, and "liberal-

ism." The animating idea behind it is the determination to use government power to make over man and society according to an ideological vision of what they should be. The effort to accomplish this is made by massive applications of government power. This power is applied in order to attempt to manage and control the economy. redistribute the wealth of the land. provide favors for the indigent, empower certain groups, disable certain others, and bring the whole under the sway of government. In some lands, this has been done directly, brutally, and dictatorially. In others, such as the United States, the effort has been made much more subtly, with a minimum of the show of force. and in the framework of other forms of government. In all cases, however, the effort has been made by unloosing those who govern and restricting and restraining the general populace.

That tyrannies have made their appearance in some places in our century is well known. That some peoples have fallen under the yoke

of oppression is rather generally recognized. All too often, however. this has been attributed to certain evil men - as, for example, Adolf Hitler and Joseph Stalin - and not to the more basic development. When this latter character is recognized, it should be clear that the task is to bring governments under the law. It is, or should be, the pressing issue of our times. There has been much talk in recent years in the United States of the need to restore law and order. Undoubtedly, there is such a need. It is important that citizens obey the law that order may prevail. But if it is only the inhabitants who obey the law, their obedience will quite often simply aid the establishment of tyranny. Those who govern must also obey the law, the law for governments. All governments are subject to law-the natural law. Beyond that, they may have their particular constitutions which establish the laws for those who govern. Rigorous adherence to these is necessary for government to be limited so that the citizenry may be free. **(**

IDEAS ON Limited Government

LIBERTY

THE POWERS not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively or to the people.

The inherent weakness of PRICE COLLUSION

D. T. ARMENTANO

THE FOLLOWING article is a brief explanation of some of the economic factors that appear to make price-fixing agreements between firms difficult to sustain, even in the absence of direct legal prohibition. The widely-held presumption among economists for some time has been that price conspiracies would be common in the American business system without antitrust legislation. The intent of the following discussion is to challenge such a presumption and suggest. instead. that there are diverse economic factors which would tend at all times to limit the success. and hence the significance, of price-fixing agreements in a free market. It is to be assumed that the firms under discussion here want to fix prices at more than competitive rates; what is being challenged is their collective ability to effectuate such a situation.

Substitutes

The responsiveness of buyers to price changes is of crucial importance when considering the potential effectiveness of price-fixing agreements. If, for example, the commodity to be price-fixed has few good substitutes, an increase in its price may increase total revenues of the conspiracy and make price collusion financially rewarding, at least in the short run. But if, as more often is the case, there is a plentiful array of goods that might be substituted for the commodity that is being pricefixed, the higher fixed price may push marginal buyers to the cheaper substitutes, and thus lower total conspiracy revenues.

This consequence encourages firms to break the agreement to maintain a uniform price since the agreement does not, apparently, work in their interests. Certainly some firms will be *relatively* worse off with regards to substitute competition than others, and would be

Dr. Armentano is Assistant Professor of Economics at the University of Hartford in Connecticut.

the first to feel the pinch of a revenue squeeze, and the first to consider a policy of selective price reductions. Thus, the threat of substitute competition may make price conspiracy difficult to form in the first place or lead to competitive price reductions that break the conspiracy apart.

Changes in Demand

A slight, even temporary reduction in demand for the price-fixed commodity may break apart the price agreement: recession is the natural enemy of successful price collusion. A decrease in demand at fixed prices will curb sales, and the temptation to ease the decline with a price reduction will be strong, especially for any lowprofit firm involved. Since all firms differ in financial strength. and in their willingness to "ride out" a demand decline, there must be such temptations and such producers. When the relatively weaker firms cut price in an attempt to increase or maintain sales, the formal price-fixing agreements tumble.

Output Agreements

Firms that agree to fix prices also agree to some marketing arrangement. Somehow, particular firms must be selected to "get" particular "jobs," or a particular percentage of industry output.

This part of the conspiracy is crucial since it must produce proper revenues to all firms involved else one or more of the conspirators will "chisel" price to steal orders. But these marketshare arrangements are all but impossible to sustain for any extended period of time. Will the present market shares be maintained and for how long? What arrangements will exist for altering the status quo? Will a smaller firm attempt to cut the fixed price when it feels that its alloted share or territory is too restrictive, and operational procedures for no change exist? And what about new firms attracted to the market by higher than competitive the prices? By definition, they have no allotted outputs or selling instructions; will they be content to just take a slice of the existing action? But which of the existing sellers will give up sales to make room for the newcomer? The tendency of output restrictions is to frustrate all aggressive sellers and attract new producers, and thus to weaken and eventually break apart price-fixing agreements.

Costs

Assume a (manufacturing) firm A whose production and selling costs – on the average – decline as output increases. As almost every

businessman realizes, there are "economies" associated with larger outputs; "spreading the overhead" and purchasing supplies in larger quantities tend to lower average costs per unit of output, and make larger outputs cheaper to produce and sell than smaller outputs. The significant point for this discussion is that firms that *restrict* outputs as part of a price conspiracy invariably raise their average costs per unit. Hence, profits will decline unless the extra revenue associated with the conspiracy exceeds the extra costs associated with the output restriction.

This important factor must surely make firms hesitant to join such restrictive agreements. Smaller firms especially, will be anxious to increase — not decrease — output, in order to enjoy the economies associated with larger scale enterprise. To compete with larger, more efficient firms in the future may make this output expansion mandatory. In conclusion, price-fixing and output agreements are difficult to conclude when firms find it advantageous to increase, not decrease, their sales.

Imports

As long as international markets are free (and it is within our power to lower our duties and tariffs to zero on all goods), a domestic price-fixing conspiracy appears limited by foreign competition. When foreign goods are price competitive, domestic price-fixing agreements are inherently unstable. A world-wide conspiracy is possible, but such arrangements have only existed and functioned successfully in the past with active governmental support.

Honesty and Trust

Of course, honesty and trust between the firms to a price conspiracy is absolutely crucial to its successful operation. If one of the conspirators thinks, or is lead to think, that anyone else is not living up to the price-output agreements (and they will have to police their own agreements), then price cutting is likely. And since it is hard to turn down old customers and their price requests, and difficult not to discount from book price when demand lags, and since all firms know this, the suspicion of price cutting will always be strong. Since firms don't trust each other in open competition, it is difficult to understand why they should suddenly trust each other in price conspiracy.

Buyer Power

As a final point, some assumption concerning the market power of the buyers is necessary to understand price collusion. The buyers must, obviously, have a relatively weak bargaining position compared to that of the selling conspiracy. If buyers are large firms that can threaten to make the price-fixed item or import it. or can use reciprocal agreements to the detriment of the price conspirators, then successful price conspiracy certainly becomes more difficult. It is hard to imagine Sears, DuPont, American Can, or any of America's industrial giants being the victim of price conspiracy in *their* purchasing markets.

Summary and Conclusions

In summation, price-fixing agreements appear unstable or unworkable when substitute competition is important, demand is falling, large producers are not party conspiracy, production to the quotas are to be agreed upon, larger outputs are cheaper per unit than smaller outputs, imports are an important part of market competition, mutual distrust and suspicion abound, and where buyers are in a position to bargain. Any or all of these factors might be enough to prevent successful price-fixing. Since almost all free markets, at one time or another, display these conditions, it appears reasonable to conclude that successful price collusion would be of negligible proportions, even without antitrust legislation.

Finally, it might be important to note that the record of many price-fixing cases prosecuted under our Sherman Antitrust Act has revealed a conspicuous lack of price-fixing success. With few exceptions, the prices have not been really fixed and have not been uniform for any substantial period of time: the evidence indicates that the agreements have broken down with almost monotonous regularity. Firms have been convicted for having a price-fixing agreement or "tampering with price structures" or *agreeing* to charge the same price, but rarely, if ever, for having accomplished successful price collusion. Thus, much of the factual and empirical evidence concerning price collusion appears to bear out the general correctness of the theories examined in this **A** paper.



GUSTAVO R. VELASCO

THE CENTRAL PROBLEM of our time is the economic organization of society. It is not necessary to adhere to historical materialism in order to recognize this or to realize, as well, that upon the manner in which society solves this problem depends the resolution of many others which today appear to be insoluble, such as the discovery of a way to overcome and transcend present nationalisms, the establishment of peaceful conditions in the world, and the utilization for constructive ends of the latest wonderful discoveries of science. Throughout the course of history we find various types of economic structures: however, humanity cannot, at a given moment, choose an economic system in the same way as a man with unlimited time or money might pick one of the trips offered by a tourist agency. The only alternative that exists for a serious thinker today is that between a free economy and a controlled economy.¹

But is there no third road? Is it not intolerable to attempt to push us into one or the other pigeonhole, that of supporters of economic freedom or of believers in state control? The purpose of the present work is to submit this widely-held belief in a "middle way" to a critical examination.

The name of the third road is interventionism. Its practical im-

Dr. Velasco has served as Dean of the Free Law School of Mexico, is former president of the Mexican Bankers Association, and founder of the Mexican Institute for Social and Economic Research.

¹ Syndicalism, with its variant, corporativism, cannot be taken seriously nor has either passed beyond mere words. Whoever believes that I reject them peremptorily may consult, among others, the confutation of the eminent German economist, Wilhelm Röpke, in his book, The Social Crisis of Our Time.

portance derives from the fact that in Mexico as in the United States and in those European countries where debate is still possible, there are many people who reject communism, sometimes even with horror because of its excesses and persecutions, but who at the same time, deluded by a persistent and insidious propaganda, are unwilling to declare themselves in favor of capitalism, which they believe to be the cause of poverty. or of crises, or of social injustice. or an order inferior from an ethical point of view. Whatever truth there may be in these strictures, and notwithstanding the fact that I believe each one of them to be the result of misinterpretation or of stark ignorance both of the facts and of economic theory, this is clearly not the occasion to expose and refute them. I would rather inquire into what lies behind such broad but vague labels as "capitalism" or "socialism" and examine and evaluate the essential characteristics of each system.

Characteristics of Capitalism

It will be found, for example, that capitalism is characterized by the existence of the following institutions:

1. freedom of enterprise, that is, freedom to engage in the work, activity, or business desired, to develop it and to reap the benefits which may result therefrom, as well as to suffer the losses which it may produce;

2. private ownership, not only of consumer goods, but also of natural resources, capital, and productive goods;

3. competition;

4. a free market, with freedom of choice by the consumers, freedom to make any deal, and a price system.

On the other hand, what distinguishes socialism and communism is centralized control of the means of production in the hands of the state. The essential thing is that, ultimately, under socialism only one will decides. This demonstrates its ineradicably dictatorial character, the inanity of attempts to combine socialism with free competition and the price system, and the confusion of those people who imagine that a planned economy is compatible with liberty and democracy.² As a

1970

² Socialism has attracted so many well-intentioned souls who sincerely abhor the fatal consequences which I point out, that my use of the two terms "socialism" and "communism" as interchangeable cannot help provoking an indignant protest. I admit that there exist differences between the two systems, the principal ones being (a) one of scope: social ism would nationalize only basic industries; for communism, in principle, there are no limits to nationalization: (b) another of method: socialism trusts to a gradual and peaceful process: communism believes in revolutionary and violent

result, every one of the institutions listed above will vanish under socialism, leaving us instead with bureaucrats and policemen behind each street corner, if not inside our very homes, as in George Orwell's novel, 1984.

An Attempt to Clarify

Once the discussion is undertaken on this more concrete ground, it will gain in clarity and objectivity. When it is realized that planned economy implies that we may be directed to do any work, if necessary as forced labor; that we can be deprived of all right to property; that all of us will become public employees; and that we may even be forbidden to decide what we shall eat, I am sure that believers in this system will be much fewer and that there

action; (c) finally, socialism would like to proceed in accordance with accepted standards of morality and preserve freedom, especially civil and political freedom, and democracy; communism rejects traditional morality, and although it speaks, for tactical reasons, of "true liberty" and "popular democracy," it is fundamentally antiliberal and antidemocratic.

These differences are secondary and are not sufficient to obscure the main question, which is that of the location of control over economic life. Moreover, the last difference, the most important, is no more than a pious hope. The road followed by England, despite the extremely strong liberal tradition of its people and the fact that it has not passed beyond the initial stages of socialization proves this quite conclusively.

will be a large number of men resolved to defend the system of economic freedom which has lifted great parts of humanity out of the misery in which they lived until the eighteenth century. Even so, the complexity of modern life. the difficulty presented by economic problems - especially those provoked by a third of a century of mistaken policies (since the First World War and especially since the Great Depression) - the fact that not everyone can analyze them and apply or follow the reasoning of economic theory, and other circumstances to which I shall refer later, leave more than one opportunity for the appearance and espousal of interventionist theories. In fact, in the dispute between the two opposing systems of liberty and regimentation, it is interventionism that has gained ground.

Unlike capitalism and communism, which are well-defined forms of organization readily distinguishable from each other, interventionism does not constitute a third structure different from these two. Interventionism does not seek to destroy the fundamental institutions of a free economy or to displace it. Neither does it have as a declared purpose the establishment of centralized direction of the means of production. Its object is a combination, a solution intermediate between capitalism and communism, in which the disadvantages and abuses of the former would be eliminated without falling into the evils and pernicious consequences of the latter. For this purpose, liberty is restricted and all the resources of the state are put into play, with the threat or the ultimate application of that power which it alone can wield, that is, coercion and violence. Since interventionism and socialism are in agreement insofar as both criticize a free economy, what characterizes and identifies the former is the feature which I have just noted and from which it derives its name: the intervention by the state, the utilization of its apparatus and power in all cases where the functioning of the system of freedom produces a result different from that which the proponents of interventionism consider ethical or desirable.

What a noble purpose! What a neat solution! To preserve the advantages of individual initiative without falling into any of the dangers of collectivism. To couple the energies of society and the unity of the state, and in one single harmonious effort, to attain justice, social peace, and prosperity. It should not be surprising that this beautiful utopia has seduced generous and enlightened minds from the remotest times. In fact, although there are some who present it as the latest novelty, interventionism is as old as history. In the first written legislative compilation which has been preserved, the Code of Hammurabi, we find laws which fix prices; and this form of intervention, together with innumerable others, persisted in Egypt, China, Greece, Rome, the Middle Ages, the Renaissance, the Mercantile Age, and the French Revolution, and emerges in our day with greater pretensions than ever.

The Market in Operation

A complete examination of interventionism. which does not claim to be a substitute for the market system but simply a corrective measure, should start with a study of the operation of the free market. In this way it would be possible to determine the accuracy of the two central arguments of the critics of the free market: the assertion, on the one hand, that even if the system of economic freedom does tend toward the optimum application of productive resources, and therefore toward the largest possible output, conditions never really correspond to the basic assumptions of laissez-faire theory, and so the latter is, to that extent, limited and deficient; and the emphasis, on the other hand, upon those results of

the free play of individual interests which are deemed undesirable. But let us grant those points to the opposing side, despite the fact that some are inaccurate and others are greatly exaggerated. In any case, the conclusion which rightly follows when one finds an imperfection in the working of the free market is the need of improving it and of achieving its efficient operation, not of disorganizing and destroying it. Since interventionism bases all its claims on its alleged ability to accomplish better results than a free economy, let us investigate how it operates in its turn and, more concretely, whether it can attain the aims which the governments and the persons who resort to it declare that they pursue.

In the economic field, these aims cannot but be greater abundance for the greatest possible number of the inhabitants of a country. In other words, the primary aim of interventionism is not different from that of capitalism or even of communism.³

⁸ In all systems, in addition to economic objectives, other ends are sought of a varied nature, moral humanitarian, nationalistic, and so forth. Nobody doubts that many can be attained by means of official action. But it is equally clear that from the economic viewpoint these measures represent an expenditure, not an income. Economic science neither approves nor disapproves of them. It confines itself to throwing light upon their true nature. In case there is any doubt about this, it is sufficient to call attention to the name with which the partisans of the latest brand of interventionism have baptized their creation: they call it the "welfare state," that is, a political body which has as its objective the welfare of the masses. And the welfare which is promised is, in the first place, economic welfare.

Classes of Intervention

Although official intervention takes extremely varied forms, analysis permits us to classify them into three groups: (1) measures whose principal object is to divert the factors of production from the channels which they would have entered in a free market, toward others preferred by their authors: (2) measures whose object is to modify the data which are a result of the market; (3) measures whose object is to change the distribution of production and, in general, of wealth.

Intervention of the first class can be either direct (prohibition of certain industries, decrees to the effect that enough factories or firms exist in certain lines, production quotas) or indirect (protective tariffs, subsidies). In order to modify the indications of the market, recourse is had to price-fixing (only for the sake of brevity do I use this word, since

the figures selected as a result of the decision of an entity with compulsory force cannot be considered as prices, which, by definition, are the result of the interaction of individuals in the market). In practice we find both maximum prices (rents, consumer goods) and minimum prices (parity prices for certain agricultural products, salaries), and we observe that sometimes the government decrees them and imposes them directly, while on other occasions it permits this to be done by private groups (legalized monopolies, labor unions), to which it lends the support of its authority, or permits them the use of physical force and violence (strikes. shutdowns of plants and offices). In the three types of measures which I have mentioned, recourse is had to the fiscal powers of the government; nevertheless, it is in the case of the third group of measures that this kind of official activity (provision of free services, progressive income and inheritance taxes) is resorted to most frequently.

Restriction Invariably Diminishes Production of Goods and Services

Based on this outline of the most frequent forms of interference, let us examine the results to be expected from each one. As I pointed out above, its operation, its yield, are the only criteria with which to judge the so-called third road in the economic field, for it is in precisely this respect that it presents itself as superior to the capitalistic system which it criticizes. In other words, what interventionism has to prove is that it can increase production, raise the general standard of living, and consequently assure greater welfare to all the population.

The deflection of production into different from those channels which it would enter in an unhampered market is so obviously restrictive that it is no exaggeration to speak of restrictionism when designating the totality of measures which the state employs for this purpose. In every case it prohibits a certain kind of production (in the broadest sense of the word and including, therefore, commerce, personal services, banking and transportation), or certain procedures are forbidden, or are made more difficult or more expensive. It could be stated apriori that, given the tendency of the free market to the optimum use of the factors of production and to the maximum satisfaction of the most urgent human needs. these shackles can result only in a deterioration of the productive process and in impoverishment of the community. A detailed examination of any one of the restrictive devices will fully corroborate this.

Let us suppose a restriction of the number of factories dedicated to a certain branch of production or of the quantity of articles which they can manufacture. Let us suppose also that this restriction is complied with or is enforced. Naturally, the price of the product concerned will go up; the profits derived from the industry in question will increase. Those who participate in it, salaried workers, investors, entrepreneurs, will be better off from receiving their respective incomes more surely or even in greater proportion than before. It would seem. therefore, that the measure is beneficial in general and that it should be approved.

Gains Offset by Losses

Whoever believes this suffers from evident myopia. When the consumers find themselves obliged to pay more for the restricted item, they will automatically have less to spend for other articles. Consequently, what the interested parties in industry A gain, those who depend on industries B, C, and D will lose. No net advantage whatsoever exists for society. On the contrary, and since wealth is created through expending a certain quantity of the factors of production and since restriction of that quantity cannot increase but only diminish the amount of goods produced, from the general viewpoint the result is a net loss, equal in amount to that of the production which was prevented. One group gained, but at the expense of the community. Taken as a whole, the latter is poorer and not richer. Interventionism not only did not attain its objective, but produced a result exactly opposite to the one it sought.

Even easier is the demonstration in the case of price fixing, a demonstration which has been given so many times that one feels reluctant to take up the reader's time with it. The function of prices is to achieve a balance between supply and demand. When the government immobilizes them at a level lower than the one determined by the market, demand increases, since buyers will feel more inclined to acquire goods and since there will also be a great increase in the number of those who could not do so at the previous price, but who find it possible at the fixed price. If instead, prices are set at levels higher than those established on the market. it will be the sellers who will flock to it, and supply will exceed demand. In either instance, the market fails to fulfill its functions; a new principle for the distribution of available goods becomes indispensable,

and queues, rationing, and the black market appear in the one case, and overproduction and chronic unemployment in the other. This is due to the fact that in addition to allocating the articles already produced, prices fill a mediate but even more important function, that of guiding and directing production.

Prices are signals, indications, to producers, of the fields in which there exists an unsatisfied demand and in which production should therefore be intensified: and of those others where supply cannot be wholly absorbed and in which future production should consequently be curtailed. Producers respond to these stimuli to the fullest extent possible in each set of circumstances, because of their desire to obtain profits and to avoid losses. And the result for society is the employment of the factors of production in those directions which will satisfy the most important and urgent needs of the consumers.⁴

Changing the Signals

Let us consider now what happens in a system in which the signals have ceased to function truthfully, that is to say, in which the government orders buyers and sellers to abide by certain amounts whose only likeness to prices lies in the fact that they are expressed in legal tender currency. If the official figure is lower than the market price, marginal producers - those whose costs are highest will lose money and will be eliminated. The other producers will continue their activities but will not increase their investments; on the contrary, they will divert to other ends the nonspecific factors at their disposal and will even retire completely as soon as they can do so, in order to engage in the production of goods which offer greater profits. As a result, the supply of the controlled commodity, the more important since it is generally a staple of life, will diminish instead of increasing as the government desired.

Exactly the same thing will happen, except in the opposite direc-

⁴ Obviously, in accordance with the scale of values of the consumers themselves. To this it is objected that the market directs production toward the fields which bring highest profits and not toward those most necessary to society or which are "truly useful." The fault does not lie with the market system, but with the desires of men. What is needed, therefore, is to instruct and convince the latter so that they will not want things of scant "social utility" (such as chewing

gum or bullfights) or which are even harmful or immoral (such as alcoholic beverages or the services of cabaret girls and prostitutes). But whoever criticizes a free economy on this account and shields himself behind supposedly economic arguments in order to impose his personal preferences, reveals very little democratic spirit and a great deal of superiority and paternalism.

tion, in the case of minimum prices or salaries. When the authorities discover that not all the farmers who cultivate a certain crop can earn sufficient money to continue producing it. they set a parity price below which it may not descend. Now, the unsatisfactory former price was not capricious: there was a reason for it and this could only be an excess of supply or a lack of demand. The imposition of minimum prices perpetuates these conditions and prevents production from adjusting itself to consumption, by keeping marginal producers in business and by even attracting new producers who, if they had been confronted with a lower price, would have applied their resources to the production of different goods.

And so, with controlled prices, as with restrictive measures, the real result that is attained is exactly the opposite of the one sought by their proponents. The conditions that are created are not better, but worse, than those which existed prior to their establishment. Some groups may be benefited and enriched, but society as a whole loses and is impoverished.

Not Income, but Expense

I shall not attempt here to discuss the method of redistributing wealth represented by the inflationary and credit expansion policies followed by most contemporary governments. As for the other measures aimed at achieving a distribution different from that determined by the capitalistic order-for example, by organizing gratuitous or semi-gratuitous services (low-cost housing programs, socialized medical services - it is so obvious that they entail an expenditure rather than an income that when attempts are made in their defense the arguments revolve exclusively around the justice of providing them. In other words, the proponents of these measures avoid justifying them in the economic field, in which interventionism boasts of its power to win the argument and in which it is the purpose of this document to examine them. If we do so, it will be easy to verify that, since the state cannot provide anybody with anything which it has not previously, and more or less surreptitiously, taken away from hin or which it does not take away from other producers, the ne effect of its absorption of all kind: of activities is to transfer fron the interested parties to the ad ministration the power to decide and to spend.

On the whole, this must hav less efficient results and yield smaller return for the community because to the less perfect satis faction (always from the point of view of the consumer) of the needs which one wants to fill must be added the disturbances originated by politics and the complications, mistakes and immoralities of bureaucracy. Above all, the social resources available for these purposes do not increase just because the heavy body of the state is interposed between them and their use, but rather diminish through having to bear the high and everincreasing cost of the services so deceptively called free.

Saving Discouraged

In general and independently, therefore, of the use to which the government puts the funds which it collects, there is no doubt but that taxation beyond certain limits discourages the accumulation of capital, as in the United States, or even has the opposite result of encouraging the dissipation and consumption of existing capital, as in England. Matters are, of course, much worse in the case of expropriations and confiscations. especially when they are not isolated and extraordinary acts, since they can only be compared in their effects to those cataclysms which paralyze even the will to reconstruct and after which recovery is as slow as it is painful.

Again, the failure of the ambitious interventionist program is

confirmed; no country can make itself rich by taking away from some people in order to give to others and by terrorizing and demoralizing all of them. It is true that whoever cuts the cake - in this case, the state and, more concretely, professional politicians. their friends, and the groups which support them or which they favor - gets the best share: yet neither does the total distributed become greater nor is the general mass of the population benefited. but rather it becomes more impoverished by such distribution.

As a result of the foregoing, it can be stated with certainty that isolated interventionist measures do not produce wealth. but scarcity - not abundance, but poverty. This is not a value judgment; neither is it a case of condemning these measures because they limit freedom and lead to totalitarianism. In the field which belongs to economic science, that of showing us the consequence of our actions and of enabling us to behave consistently, it can be demonstrated that the results of state interventionism are contrary to the aims that it seeks and that from the point of view of those who want intervention - not from my point of view or in the opinion of the friends of capitalism - it ends in a situation which is worse than the one it set out to improve. Interventionist policies must, therefore, result in failure and frustration, or else go on, extending both horizontally and vertically until they end in complete economic control and in socialism of the Nazi type.

Mushrooming Intervention

This course must offer great temptation to those who have embarked upon interventionist adventures and represents one of the greatest threats of such a policy. Upon observing that the maximum price fixed for milk, for example, causes this product to disappear from the market, let us fix the prices of other activities and commodities, such as pasteurization, milk containers, transportation. If production has been diverted to butter and cheese, let us fix their prices and limit the amount which can be made of them. If this does not produce the desired result either. let us freeze the salaries of such persons as may be engaged in the milk industry or even of those connected with it, and go a step further and prevent the producers by force from abandoning this field. If the supply of milk grows less every day, let us follow the internal logic of interventionism and take the ultimate step: let us control evervthing, without exception. Then we shall have eliminated the mar-

ket completely, we shall find ourselves at the opposite extreme from where we started, and we shall have established a system which is indistinguishable from the communism which we began by repudiating.

There is no doubt, therefore, that interventionism constitutes an extremely efficacious instrument in the struggle begun some time ago for the purpose of destroying the liberal society in which, in spite of everything, we still live. In the first place, it lends invaluable support to those who are working to establish communism but who realize that they would meet very strong opposition if they openly advocate that form of economic organization. Perhaps even more serious is the fact that interventionism complicates and aggravates economic problems to such a degree that the majority of people, among them the majority of the classes which previously performed the most important of directive functions, that of supplving the ideas which guide society, are bewildered and perplexed and even come to believe that these problems admit of no perfect solution. But does not this situation cause surprise?

If, in the field of ideas, the failures of interventionism are indisputable, if not only the bankruptcy of this policy but also its

catastrophic effects and the danger which it presents are visible on all sides, especially in those countries which have carried it the furthest, why does it not pass forever into oblivion, ashamed of the confusion which it has wrought and of the countless ills which it has brought upon humanity? The explanation is complicated, but in my opinion it should be attempted because it will help to dissipate the mental fog which has descended upon a great number of our fellow men and left them irresolute and deprived of the will to respond to the challenge of our times.

Reasons for Confusion

Let me list briefly some of the reasons for this:

(a) Man is by temperament a compromiser, especially when confronted with matters which he does not understand and which he thinks do not affect him directly. The majority believes that the debate concerns only a mythical class, "the capitalist" or "the bankers," and the government. What is more natural than to think that each one must be partly right and that as between the freedom demanded by the former and the complete control which everyone instinctively fears, the solution must lie in the golden mean of interventionism?

(b) Both in economic matters and in general, without the aid of science our perception and interpretation of phenomena are rough and misleading. Scientific knowledge aims precisely at broadening our field of vision and our understanding and making them more accurate. But just as an ignorant person does not observe that the world is round, so also in economic matters he sees no further than the near and immediate effects of an act or a policy. The masses are incapable of understanding the secondary consequences which those acts or policies generate in time or space; nor will they follow the long and rather complicated reasoning necessary to explain them. Since interventionist measures seem at first to be successful and may benefit special groups, a man without economic knowledge needs no further proof to be convinced of their efficacy.

(c) In the economic process we all have a dual personality: on the one hand, we are producers; on the other, consumers. Although frequently and with a notorious lack of logic, government intervention is asked against consumers when prices decrease, and protests are made and official aid invoked against producers when prices increase, the predominant interest of the majority of people is their interest as producers. This is more direct and specialized, since the interests that consumers have in common are diffuse and lend themselves but little to the organization of groups which would further them. And thus we see that in the democratic countries the voters cast their ballots in favor of their interests as producers and against the general welfare, which would usually coincide with their interest as consumers.

Interventionism Is Unstable

Whether the explanations which I put forward are accepted or whether other causes are found for the regrettable blindness of our contemporaries in face of the disaster of interventionism, I repeat that this system has won ground since the First World War opened the door to it. Is it to be anticipated that it will continue, as it has up to now, to extend and intensify itself more all the time?

It is not to be believed. Interventionism has lived off the reserves accumulated under capitalism and thus has succeeded in hiding to some extent its excesses; but these reserves have already been dissipated in some countries, while in others, their exhaustion is only a question of time. Interventionism is essentially unstable as I believe I have demonstrated, because it is not a real third system but a makeshift which fluctuates between the capitalism from which it starts and the communism which it does not wish to reach. Consequently, either humanity has a lucid moment and holds back at the edge of the abyss, or else it plunges into it and into the new dark age of which a terrifying prelude has been furnished us by Hitler's Germany and Stalin's Russia.

What cannot be doubted is the danger in which we live. Let us not forget that interventionism constitutes a seeming, but in fact self-defeating and suicidal solution which does not raise the standard of living but lowers it. which does not create wealth but consumes it. Its basic philosophy is mistaken and pernicious. Like the collectivism to which it believes it is raising an obstacle, it mistrusts the individual and his innate capabilities, and seeks salvation in an entity supposedly free from his limitations and weaknesses, which would be outside of society and superior to it. In practice, interventionism is nothing but statism. Moreover, by attributing to the state an omniscience and an omnipotence which nothing justifies - neither theoretical resasoning nor historical experience - interventionism professes a true idolatry of the state and is even inferior in this aspect to communism, which at least in theory does not exalt the state and even speaks, deludedly, of its fading away.

In the same way, interventionism is inimical to individual liberty. It is not a question simply of the fact that its specific means of action are orders and prohibitions and that it necessarily implies a reduction of liberty and an increase in compulsion. The evil stems from a much deeper source, from the fact that contrarily to the naive thesis that it is possible to separate what is economic from what is not, liberty is indivisible. Since there exist no purely economic motivations which can be separated from the other objectives which we seek in life, any diminution in the sphere of economic liberty results in a loss of freedom in other fields. In other words, there is no economic sector of life inferior to others and clearly marked off from them, in which it would be possible for the state to project itself without resultant ill effects upon personal liberty. All intervention in the means implies an intervention in the ends. Automatically, the decision as to what objectives we must fulfill and as to the relative rank of the values which they tend to realize, is shifted to a great extent from the individual to the state, until it is completely absorbed by the latter in communism, which for this reason, is inescapably totalitarian.

The Greatest Danger: The Statification of Life

What can be surprising, after the foregoing, about the necessary results, observable everywhere, of statism and of the abandonment of liberty? The state grows and hypertrophies until it assumes the proportions of a Leviathan or a Behemoth. Instead of being a center of union and a representative of the general interest, it becomes a cause of conflict and an instrument of private appetites upon which each group brings pressure or which it is anxious to dominate in order to apply governmental compulsion and strength for its own benefit. Political institutions become deformed and corrupt, because, having been conceived for other purposes and in a different atmosphere, they prove inadequate in a state which is impatient of restrictions and hampered by law. Not only in public life and in the administration does immorality increase as a result of the power which the organs of the state acquire over economic matters, but the people as a whole become accustomed to the phenomena which accompany interventionism: smuggling, bribery,

black market, governmental favors; they cease to believe in selfreliance and lose their sense of responsibility, seeking prosperity at the expense of others and changing from citizens to subjects and from free men to wards of the government.

The problem of interventionism is not, as may be seen, purely economic, but much more general. Although its political and social repercussions are undeniably of the utmost importance, I continue to believe that it is only after subjecting it to economic analysis that one can pass a decisive judgment on it. And I would conclude, with Ortega y Gasset: "This is the greatest danger which threatens civilization today: the statification of life, state interventionism, the absorption of all social spontaneity which, in the final instance, sustains, nurtures, and impels human destinies."⁵

⁵ The Revolt of the Masses. Complete Works (in Spanish). Book IV, page 225.

A Futile Life

LIFE IS INFINITELY less important than freedom. A free man has a value to himself and perhaps to his time; a ward of the state is useless to himself – useful only as so many foot-pounds of energy serving those who manage to set themselves above him. A people which has lost its freedom might better be dead, for it has no importance in the scheme of things except as an evil power behind a dictator. In our hearts we all despise the man who wishes the state to take care of him, who would not rather live meagerly as he pleases than suffer a fat and regimented existence. Those who are not willing to sacrifice their lives for their liberty have never been worth saving.

MAXWELL ANDERSON, The Guaranteed Life





THE TROUBLE with the modern collectivistic liberal is that he has forgotten to study the nature of man. This is the sum and substance, in capsule, of Clarence B. Carson's 548-page book, *The Flight* from Reality (Foundation for Economic Education, \$5.00 cloth; \$2.50 paperback).

Since the origins of our deepseated malaise can be put in a sentence, one might suppose that Dr. Carson, who teaches American history at Grove City College in Pennsylvania, could have covered his subject in fewer pages. Alas, the "flight from reality" has affected so many millions of people and taken such incredibliy protean forms that Dr. Carson has barely scratched the surface. He has had to deal with religion, philosophy, law. literature, journalism, history, economics, psychology - you name it and it's here. It is obvious that each line of investigation could have produced a whole book

in itself, so, actually, Dr. Carson has been most succinct.

Sticking to Dr. Carson's fundamental message, variants of it are spotted in epigrammatic form throughout his long text. "Men." he says at one point, "have been taught to take their eyes away from the nature of things and to focus upon the purported object or end for which an act has been performed. They have been taught that it is the motive that counts. not the consequences of the act. . . ." At another point he condemns our thinkers and artists for ignoring "the principles of human action, the essentials of artistic or economic production, human nature, and the conditions of liberty." In another passage he chastises our "reformers" for imagining they are "gods or demigods who could create a reality out of their dreams of it. It turns out that they were only men. It is small wonder that those who feel

deepest should turn upon man, then, and describe him as so contemptible."

Philosophical Relativism

The first "reality" to be deserted in point of time was "the Western tradition of philosophy" which ever since Plato and Aristotle had accepted the "central insight" that "there is an enduring, even an eternal. reality." Commenting on our abandonment of our Western heritage. Dr. Carson observes that if we do not believe that enduring principles can be discovered, there is little need for education. Any man's guess is as good as the next man's. The lesson of history is that history has no lessons. Good and bad become hopelessly relative: a society can make anything good by simple majority vote.

Dr. Carson traces the shamples that "relativity" has made of all of our so-called disciplines with a keen eye for the ridiculous. If there is no enduring truth, how can there be any science? Why should we have a Constitution? Why not legislate utopia tomorrow? Why bother with the subject of economics, which "has to do with the frugal management of time, energy, resources, and materials so as to bring about the greatest increase in the supply of the goods and services most desired"? "Melioristic economics" assumes plenty, not scarcity and where there is "plenty" to be grabbed, the politician who seizes it for redistribution must, for the short run at least, seem very much like a "god or demigod." The trouble is that the "short run" considerations presuppose that a nation can live by consuming its capital, and this brings us back to "reality" with a thud.

War on the Poor

The reformer's "flight from reality" in economics is part and parcel of the "war on the poor" that has been covered by Dr. Carson in another notable book as well as in chapters of the present work. People are hungry, so the reformer begins by legislating crop restrictions. There is unemployment, so we have minimum wage laws that keep you from hiring household help at a rate that you can afford to pay. Goods on the merchants' shelves come at high prices, so why not have price supports and make the goods unavailable to those who cannot afford them? If you lack purchasing power, let the government inflate the currency. This will increase the supply of money, not the supply of goods, so you'll not get anything more for having had the worth of your dollar cut by 30 per cent in ten vears. It's all as crazy as Dr. Carson describes it. But the



By CLARENCE B. CARSON 568 pages \$5.00 cloth, \$2.50 paper

(Quantity discounts available)

The book is somewhat updated from the series carried earlier in *The Freeman*. These are samplings of reader responses:

~ "I want to tell you that I greatly appreciate your series of articles on *The Flight* from Reality.... I trust these will be published in book form in the near future... such a book should be required reading for every student in our colleges."

--- NEW HAMPSHIRE

~ "Your Flight from Reality series has been so penetrating, so irresistibly logical and so trenchant that I do hate to see it come to an end." —PENNSYLVANIA ~ "Almost like an adolescent pursuing a 'thriller' to the last page, I have been intoxicated with each succeeding installment of *The Flight from Reality*. Now that I have regretfully reached the last page, I am writing to thank you for this brilliant piece of analysis. I shall read and reread it for many years." —NEW YORK CITY

~ "Have completed reading *The Flight* from *Reality* and I still say it's simply great!" —COLORADO

----CALIFORNIA

"I have just finished reading the last installment of your Flight from Reality....
 I have reread each installment several times.
 ... You have put together a monumental work. I hope it gets the attention it deserves."

~ "The September issue of THE FREE-MAN was received in today's mail and I felt called upon to express my appreciation to you and the editors for affording me the opportunity of studying your splendid series on The Flight from Reality." —NEW YORK

 \sim "Your uncompromising libertarian position combined with your great scholarship make your articles among the very best ever written. The service you are rendering to individual liberty is tremendous." —ARKANSAS

~ "I commend you for and admire your ability to comprehend broad subjects and to translate that comprehension into straightforward, easy-to-understand language. Your Flight from Reality is an outstanding example of this ability." —WISCONSIN

ORDER FROM: THE FOUNDATION FOR ECONOMIC EDUCATION IRVINGTON-ON-HUDSON, NEW YORK 10533 Square Deal, the New Deal, the Fair Deal, the New Frontier, and the Great Society were all dedicated to the idea that government intervention in behalf of augmenting craziness would raise everybody's standard of living. If we hadn't been blessed with technologists who could find ways of cutting the cost of making and distributing goods in spite of crop restrictions, minimum wage laws, and inflation, we would have been dead of "meliorism" long ago.

One of Dr. Carson's best chapters is the one called "The Flight from the Constitution." The Constitution protects "speech, the press, and religion" absolutely. But "life, liberty, and property" can be taken away by "due process of law." There are two methods of taking property that are sanctioned by the Constitution: by taxation and by exercising the right of eminent domain. The taxing power is limited by the requirement that taxes be levied for "the common defense and general welfare, and that some of them be uniform throughout the United States." As for "eminent domain." it can only be exercised when "just compensation is paid" for something taken for "public use."

Departures from the Constitution

All of this is, or should be, very clear. But Dr. Carson notices that

the power to regulate commerce is used to take property from people. The minimum wage law is confiscatory, a violation of the due process clause of the Constitution. The Sixteenth Amendment gives Congress the power to "lay and collect taxes on incomes from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration."

But this does not "authorize" a graduated income tax. which would seemingly be outlawed by the Constitutional guarantee of "equal protection of the laws." If spinster Vivien Kellems has a good Constitutional point when she argues that she is being denied "equal protection" when the Treasury taxes her at a higher rate than it taxes married women, why haven't we all a valid case against the government when it distinguishes between high bracket dollars and low bracket dollars? The millionaire doesn't get the same protection for his dollar of income that is accorded to less fortunate mortals. Nobody cares very much about the millionaires, but it happens to be their Constitution, too. And how about the nineteen-yearold who is drafted by the military and sent to fight in an undeclared war? His body is seized, and he is compelled to labor at a task which he has not freely chosen

This is "slavery" by any definition, and it happens despite the Thirteenth Amendment, which specifically prohibits "involuntary servitude, except for the commission of a crime."

Conflict Instigated

By assuming the right to seize property and redistribute it despite the Constitutional guarantees about "due process" and "equal protection of the laws," the government has turned the U.S. into a "class society." Men have been set against men, and groups against groups. As Dr. Carson says, a man may be a husband, a father, a son, a deacon in his church, a Mason, a golfer, a property owner, a debtor, a creditor, a consumer, a seller, a hunter, and an army veteran, but if he thinks of himself as "labor" he will not be acting as a "whole man." By "politicalizing" the struggle for income, society is not only cut apart, it is rendered impotent.

The Flight from Reality is such a wide-ranging book that reviewing it is like reviewing a whole literature. I feel that I have done it only the most cursory sort of justice. I wish I could find some way of persuading every college freshman to read it, and to throw its contents in the face of his professors in economics, law, literature, history, and philosophy for the four years of his undergraduate life.

THE HISTORICAL SETTING OF THE AUSTRIAN SCHOOL OF ECONOMICS by Ludwig von Mises (New Rochelle, New York: Arlington House, 1969, 47 pp., \$1)

Reviewed by Tommy W. Rogers

THE IMPORTANCE of this book is not to be measured by its size. Von Mises ranges far beyond a chronological account of the development of important men and works in the Austrian School: he goes beyond an era history though he provides this in revealing fashion - showing the organizational support, social influence, and status of German and Austrian universities and their interaction with the social structure. He touches on the study and uses of philosophy, epistemology, and history as they relate to liberty and its corollary requirements of openness to free enterprise and the free flow of ideas. We have here an enlightening venture into the sociology of knowledge, or the social context in which ideas develop and do or do not take root.

What was to become known as the Austrian School can be traced to the publication of Karl Menger's *Grundsatze der Volkswirt*- schaftslehre in 1871. His two earliest followers were Eugen von Böhm-Bawerk and Friedrich von Wieser. They, and some younger men who had been taught by Wieser, contributed to the economic theory of marginal utility. The pejorative term "Austrian School" was applied only when their antagonism to the German historical school came into the open in the 1880's. Even in Austrian universities (for reasons which Mises explains) those whom the world styled the "Austrian economists" were somewhat reluctantly tolerated outcasts.

The hostility that the teachings of classical economic theory received on the continent was primarily caused by political predispositions. Political economy as developed by several generations of English thinkers (of whom Adam Smith, David Ricardo, Thomas R. Malthus, and J. S. Mill are representative) was the most exquisite outcome of the philosophy of the Enlightenment, containing the gist of the liberal doctrine that aimed at the establishment of representative government recognizing the equality of all individuals under law.

Most of the nineteenth century's progressive politicians who advocated representative government were guided by the optimistic illusion of democratic infallibility founded on a double faith in the goodness of man and his rational mind. The arguments brought forward by the small group of liberals known as the Austrian economists did not imply any reference to an alleged infallibility of majorities. The rationale of representative government. Mises points out, is not that majorities are Godlike and infallible. "It is the intent to bring about by peaceful methods the ultimately unavoidable adjustment of the political system and the men operating its steering mechanism to the ideology of the majority." These true liberals recognized that the only economic system which assures a steadily progressive improvement in man's welfare can work only in an atmosphere of "undisturbed peace." They advocated government by the people's elected representatives because they took it for granted that only this system will lastingly preserve peace in domestic and foreign affairs.

Today, however, the reaction of "statism and socialism is sapping the foundations of Western civilization and well-being." "But," Mises adds, "truth persists and works, even if nobody is left to utter it."

Freeman

VOL. 20, NO. 2 • FEBRUARY 1970

Emblem of Freedom George F. Cahill A legend of Freedom – and how it can be lost.	67
Inflation: A Tiger by the Tail Henry Hazlitt Like a drug, increasing doses are required for a given "high" feeling, with demor- alizing consequences; withdrawal may be agonizing.	70
Inflation: What It Means William B. Boyd A businessman decides to combat inflation by discussing it with the young folks.	80
$\begin{array}{llllllllllllllllllllllllllllllllllll$	85
Brighten the Corner William L. Edelen "It is very difficult to save the world until first you save yourself."	88
Lincoln Didn't Say It Dean Russell but well he might have!	96
What is Overpopulation? Rousas J. Rushdoony "Socialism always faces overpopulation; a free economy does not."	98
Planning for Peace Hans F. Sennholz The economic consequences of peace are far less to be feared than are govern- mental plans for peace.	106
The E's Have It W. A. Paton A perceptive presentation of the case for efficiency and equity in personal performance.	108
A Living Symbol Earl Zarbin A peaceful, productive, self-responsible person is the first and only helpful step toward peace.	122
Book Review: "The Conservative Mainstream" by Frank S. Meyer.	125

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

Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

IRVINGTON-ON-HUDSON, N. Y. 10533 TEL.: (914) 591-7230

LEONARD E. READ	President, Foundation for
	Economic Education
PAUL L. POIROT	Managing Editor

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

Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including THE FREEMAN, are met through voluntary donations. Total expenses average \$12.00 a year per person on the mailing list. Donations are invited in any amount - \$5.00 to \$10,000 - as the means of maintaining and extending the Foundation's work.

Copyright, 1970, The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid, to one address: Single copy, 50 cents; 3 for \$1.00; 10 for \$2.50; 25 or more, 20 cents each.

Any current article will be supplied in reprint form upon sufficient demand to cover printing costs. Permission is hereby granted to reprint any article from this issue, providing customary credit is given, except "What is Overpopulation?"





GEORGE F. CAHILL

MAN, through all of the ages and civilizations, has devised various emblems and symbols of his beliefs, associations, and ideals. Such emblems have been countless and varied.

The most widely known and heralded emblem of freedom in the history of the world is the flag of the United States of America. It is a man-made thing, a man-made banner of red, white, and blue. Another man-made emblem of freedom is the 225-ton woman named "The Statue of Liberty" in New York Harbor. The poetess, Emma Lazarus, called it "Mother of Exiles."

There are few natural emblems of freedom. One pre-eminent example is the Eagle. In the earliest days of civilization his visual projection appeared on coins, emblems, carvings, and castings. He served to remind man of his noblest aspirations. It has been said that the Eagle is the emblem of freedom, the incentive of valor, the pledge of victory.

There is another natural emblem of freedom, unique, for it is a vegetable, called *Arvalányhaj*! It grows two to three feet tall, thin-stemmed, flexible but strong, and flaxen in color. It bows majes-

Mr. Cahill is Scout Executive of Allegheny Trails Council, Boy Scouts of America, and Executive Director of the Flag Plaza Foundation, both headquartered in Pittsburgh, Pennsylvania.

tically in the wind, and glistens gloriously in the sun.

In the olden days when Hungary was a proud, creative, industrious nation of free men, all of the princes, potentates, musicians, soldiers, scouts, and athletes wore plumes of *Árvalányhaj* affixed to their hat bands. *Árvalányhaj* stood tall above the crown of their hats, shining in the sun, and waving in the wind. The proud Hungarians wore *Árvalányhaj* as a symbol of their national freedom.

This rare and beautiful grass grows only on the steppes of Hungary. Its meaning as a symbol relates to a legend famous and popular among Hungarian people since the founding of their nation.

A Promise Given

This legend has it that Arapid, the second of their princes and the mightiest of their hunters, rode alone one evening on the hunt. He went further into the deep woods and high hills than any of his tribesmen had ever ventured. As the sun was about to set and Arapid had decided to end his hunt, he heard a scream from over a nearby rise. He galloped in the direction of the scream, reached the rise, and looked into the glade below. There he saw a beautiful girl. Her long blonde hair was entangled in a thornbush. She could not escape. She was about to be attacked by a ravenous wolf from across the glade. Arapid pulled an arrow from his quiver and fixed it in his bow. He drew long on the strong bow string. As the wolf mounted his last leap and lunged, the arrow sped straight and true. It pierced the skull of the wolf which fell dead at the feet of the girl.

Arapid rode his white steed to the girl's side and loosened her from the thornbush. He asked why she was in the woods. "I live in the woods alone," the little girl replied. "My parents are dead, my name is Árvalány" (orphan girl). The girl explained that she lived at peace with all of God's creatures except the wolf. She thanked Arapid for saving her life and said she would repay Arapid by using a special skill she possessed. She explained that before her parents died they had endowed her with the rare gift of being able to foretell the future. If Arapid would ask her a question, she would tell him the answer rightly no matter how far into the future the guestion related.

Because of the difficulties his people had encountered in crossing two continents and because of the tribulations they had overcome, the driving question in the mind of Arapid which he posed to the orphan girl was: "Árvalány, how long will my people live in the land we have come to love?" Legend claims that *Árvalány* spun on her heels and her blonde hair flashed in the sun. She asked the Prince to seize and with his sword to cut off the locks of her long golden hair. After first protesting, the Prince finally followed Arvalány's command. She turned, took her own hair and tossed it into the air. A mighty gust of wind came off the highest mountain and seized the locks. Her hair was tossed and jumbled, and scattered wide over he plains of Hungary. Wherever t fell it took root and turned nto a plumy grass. Arvalány urned to Arapid and said: "So ong as Árvalányhaj (orphan girl's nair) grows here in the valley of Jodollo, your people shall live in he land they love."

For many long decades the people of Hungary proudly wore Arvalányhaj on their hats as an EM-BLEM OF FREEDOM.

Árvalányhaj still grows on the plains of Hungary and nowhere else on earth.

Sadly, the people of Hungary no longer wear Arvalanyhaj as a salute to freedom for they have lost their freedom.

The beautiful legend, once known to every Hungarian, is now unfamiliar to many of the children of Hungary. For those who know the legend and hope to see *Árvalányhaj* again worn by freedom-loving Hungarians, it remains a reminder that man's most precious possession - Freedom - can be lost!

The Spirit of Liberty

DEAS ON

THE SPIRIT of liberty is the spirit which is not too sure that it is right; the spirit of liberty is the spirit which seeks to understand the minds of other men and women; the spirit of liberty is the spirit which weighs their interests alongside its own without bias; the spirit of liberty remembers that not even a sparrow falls to earth unheeded; the spirit of liberty is the spirit of Him who, near two thousand years ago, taught mankind that lesson it has never learned, but has never quite forgotten; that there may be a kingdom where the least shall be heard and considered side by side with the greatest.

INFLATION: a tiger by the tail

HENRY HAZLITT



WHAT is the present outlook for inflation in the United States?

In trying to answer that question it is well to begin by reminding ourselves of how long we have been having inflation and how far it has already gone.

We started to depreciate our money officially, so to speak, in 1933, when we not only suspended gold payments but prohibited our citizens from owning gold. Then in 1934 we devalued the dollar in terms of gold by 41 per cent.

So far as the movement of prices is concerned, however, the most convenient benchmark to take is 1939. The average prices that consumers pay in the United States today are 167 per cent higher than in 1939. Putting this in another way, today's dollar has only as much purchasing power ε 37 cents had then.

Some people are trying to tal comfort from the fact that the annual rate of price rise, on the official index, is still slightly less than 6 per cent a year. Is the worth worrying about?

I think it is. Let me quote a excerpt from a calculation mac in its bulletin of August 26, 196 by S. J. Rundt & Associates, leading consulting firm on inte national monetary affairs:

An American who starts to wo: at 18 and who must live with 5.5 p cent per annum inflation will see pric double before he is 31. And he will s prices doubled for the third time his adult life ahead of his 57th birt day. And if a healthy constitution an modern medicine keep him going, will see prices doubled for the four time prior to age 70. In other word when he reaches 70 he will have

Mr. Hazlitt is the well-known economist and financial analyst, columnist, lecturer, and author of numerous books.

pay 16 times as much for whatever he buys as he did when he started out in gainful life. His greenback will have shriveled to $6\frac{1}{4}$ cents, or by 93.75 per cent.

If we carry this calculation on to the young man's 83rd birthday, prices will have doubled once more; he will have to pay 32 times as much for equivalent goods and services as he did when he took the first job; his dollar will have shrunk to a mere $3\frac{1}{8}$ cents.

The only trouble with the foregoing calculation is that it is already outdated. Prices have revently been rising at an annual rate close to 6 per cent. At such a rate prices would double every 2 years instead of every 13.

low It Began

How did our present inflation et started? And how did we get o the point where we are? Our nflation came about, to put it riefly, because for 30 out of the ast 38 years the Federal governaent has been spending more noney than it has taken in in axes, and has paid for the differby printing irredeemable nce aper money. At the end of 1939, he nation's stock of money, as leasured by currency in circulaion and demand bank deposits. ras \$36 billion. Today it is \$200 illion, almost a sixfold increase. Inflation is caused, always and

everywhere, by an increase in the stock of money and credit in excess of any increase in the supply of goods and services. The five- or sixfold increase in the supply of money in the last thirty years might have resulted in something like a five- or sixfold increase in prices if it had not been for a substantial increase also in the production of goods and services in that period. The official index of industrial production has increased more than fourfold in that period. This is the main reason why the increase in prices was not as great in that period as the increase in the stock of money.

In trying to forecast the probable future of inflation, it is important to keep in mind that this inflation is not something confined to the United States. In the same period, most countries have inflated even more. Though the American dollar at the end of 1968 bought only 83 per cent as much as it had ten years before, the German mark bought only 80 per cent as much, the Swiss franc only 76 per cent as much, the British pound only 74 per cent as much, the French franc only 69 per cent as much, the Japanese yen only 62 per cent as much, the Chilean escudo only 11 per cent as much, the Argentine peso only 7 per cent as much, and the Brazilian cruzeiro only 2 per cent as

much. The reader can imagine what this has meant in economic distortions and disruptions and in personal tragedies.

Government Policies

Let us come back to the point that inflation, always and everywhere, is caused by the policies of governments, not of private individuals. It is brought about directly by governmental monetary policies, and indirectly by government fiscal policies. Why do governments launch such policies?

Usually they do so by default, most often by getting into a war. The great chronic inflations of this century were triggered by World War I and then World War II. A government at war has to increase its spending suddenly and enormously; it usually lacks the courage to increase taxation correspondingly; in fact, it usually regards such a course as impossible. It usually also decides that it cannot even issue bonds to be paid for out of savings to finance the difference between its expenditures and its revenues. So in effect it finances its deficits by printing paper money. The inflation is then on. Prices soar.

But when the war is over, the country does not go back to its previous lower level of spending. One reason is that prices have soared; all government services cost more. Another reason is that vested interests have already been established in favor of continuing and even increasing the wartimlevel of spending. Still another reason is that there is great fear however unjustified, that if the budget is now overbalanced by cutting back expenditures, and surplus develops which is used the pay off accumulated national debiit will precipitate a deflation, with terrible consequences in bankrupt cies, unemployment, and depres sion.

In brief, vested interests ar created in a continuance of infle tion. Theories grow up rationaliz ing and glorifying inflation. From the middle thirties to the middl sixties these theories were typ cally represented by Keynesianism

The theories differ in detail. bu broadly they run something lik this: When there is depression c unemployment it is because per ple do not have enough "purcha: ing power," or do not spen enough even of the money the have because they think prices as going to go still lower. If the go ernment runs a deficit and prin more money, this will increase d mand for products and therefor increase employment. This will n bring on "true inflation" if tl additional money is not issued too great amount; but even if does increase prices, this will i

crease profit margins and so stimulate more production and more employment.

Now these theories combine multiple fallacies with some element of truth. When there is stagnation and unemployment, it is hearly always because there is some lack of coordination between prices. wages, and other costs. The appropriate remedy is to restore this coordination, usually by a lowering of certain key costs, such as wage rates, in relation to final prices. Under today's conditions, the resistance of powerful labor inions tends to make it "impossible" to lower wage rates. So the only apparent remedy is to inrease prices.

itimulative Effects in the Early Stages of Inflation

In its early stages inflation does precisely this, and so tends to estore demand, prices, and profit nargins, and hence employment ind production. This is the elenent of truth in the theories that nflation is necessary or desirable. t is this stimulative effect that nakes inflation initially popular. But this is only the early effect of he first "dose" of inflation. When mainess activity is restored and 'ull employment is restored, costs egin to catch up again, or even once more race ahead of final prices. The price of raw materials

rises. Unions demand higher wages – including both "cost of living" increases and "productivity" increases. Soon profit margins are reduced again or even wiped out in certain lines, and there is a demand for a second dose of inflation.

It is particularly instructive to study what happens to interest rates. Whenever business is slack. governments are under great pressure to keep interest rates down, to "encourage borrowing." There is apparently a simple way to do this. Interest is the money paid to borrow loanable funds. It seems to the government that the simple way to reduce interest rates (and hence, it is argued, to reduce costs of production) is to increase the supply of loanable funds by increasing the supply of credit and paper money. And for a while this may indeed reduce interest rates. But soon another consequence follows. As a result of the increased supply of money and credit, prices rise. Let us say that as a result of an increase in the stock of money by 5 per cent, prices rise about 5 per cent. Then businessmen will have to borrow 5 per cent more than they did before in order to do the same volume of business. Hence, the demand for money will increase 5 per cent, so catching up with the 5 per cent increase in the supply

of money; and as a result interest rates will tend to go higher again.

Pressure for More Money

Then there will be political pressure for a second dose of inflation, say another 5 per cent increase in the supply of loanable funds, to bring interest rates down again. This will have the result also of increasing prices of commodities and of increasing the demand for borrowed money, once more raising interest rates, and leading to pressure for a third dose of inflation to get them down again; and so on.

(To simplify the exposition, I have been assuming here that prices will increase roughly in proportion to increases in the money stock. Of course, in the earlier stages of an inflation this is unlikely to happen. Because of increasing annual production of goods and services, and for other reasons, the average of prices is likely to go up less than the stock of money is expanded. But for the moment we can ignore such qualifications.)

But there will now also be an additional effect. Suppose, as a result of an annual dose of inflation of about 5 per cent a year for the past few years, prices have been rising at a rate of 5 per cent a year. Then a lender, asked to lend his money at an annual rate of ε per cent, will say to himself:"Why should I? Even if the loan is safe and I get my principal back a year from now, it will probably be worth some 5 per cent less in purchasing power than it is worth now. Therefore, I am in effect being asked to lend my money at ε zero rate of interest."

So on top of his regular interest the lender will want what is called a price premium to compensate him for rising prices. This is the reason why interest rates have now soared in this country to the highest levels since the Civil War If prices have risen nearly 6 per cent in the last twelve months and are expected to rise as much in the next twelve months, and so or indefinitely, then even a lender who is getting 9 per cent on his money figures he is getting a rea interest of only about 3 or 4 pe: cent net.

40 Per Cent Loss in Seven Years

Let me cite just one concrete il lustration, from the December 1969, letter of the First Nationa City Bank of New York, of th combined effect of rising interes rates and depreciating money s far: "The market value of th U. S. Treasury 4¹/₄s of 1992/8⁷ issued only seven years ago at th highest rate permissible under th legal ceiling, has dropped sinc then by about 30 per cent. After allowing for the loss of the purchasing power of the dollar, the real loss suffered by anyone who bought the bonds when they were issued is somewhat over 40 per cent."

What happens to interest rates is merely an illustration of what tends to happen throughout the economy. If commodity prices have been rising at an annual rate of nearly 6 per cent, and people exsect them to continue to rise at that rate, then everybody tries to compensate; everybody tries to adjust his interest. rents. prices. and wages accordingly. Individual workers, and especially unions, if they expect a 6 per cent annual cise in consumer prices, will ask for a 6 per cent annual "cost of living" rise in wages to compensate. They will want this on top of any "productivity" or other increase to which they otherwise think themselves entitled. Thus, costs of production will rise as last as prices, if not faster. Real profit margins will not increase. There will be no expectation of any eal increase in profit margins. In orief, a constant rate of inflation vill cease to have any stimulative effect on business - on buying, proluction, or employment.

This applies not only to an inlation of a "mere" 6 per cent a rear. It applies just as much to any constant rate of inflation whatever -10 per cent, 50 per cent, 100 per cent a year.

Higher than Expected

We arrive, then, at the general principle that any rate of inflation that is generally expected has no stimulative effect on the economy. even if the expectation continues to be fulfilled. For an inflation to have a stimulative effect, it must be unexpectedly high; the rate must come as a surprise to the business community, so that it is not already discounted in current prices and costs. This is almost equivalent to saying that the rate of inflation, if it is to continue to have a stimulative effect, must be accelerative. But we finally arrive at the paradox that even an increasing rate of inflation will have no stimulative effect if the acceleration itself is generally expected; it must always be greater than what is generally expected, no matter how high expectations may be.

And if the rate of inflation is suddenly less than has been generally expected, the result is likely to be a crisis followed by a recession. This is true at any level of inflation. It will be true if the expected rate of inflation is "only" 5 per cent but proves to be zero.

It is important to understand just why this is so. The business

community (and in this term I include not only producers but consumers) is always operating on expectations. These expectations at any moment are built into existing prices. An obvious and outstanding example is the stock market. The existing price of any stock does not merely reflect its present yield or the company's present earnings per share; it reflects what the company is expected to earn and what the stock is expected to be worth in the future. The prices of all basic commodities on the speculative markets - wheat, cotton, copper, silver - reflect foreseeable or expected future conditions of supply and demand. The present price of land and houses reflects not only the existing inflation, but the expected *future* rate of inflation – what buyers and sellers expect the state of inflation to be a year, two years, twenty years from now. So if something happens to bring even a 5 per cent annual rate of inflation to a halt - or if it is expected very soon to come to a halt - buying will suddenly fall off, prices will drop, unemployment will rise, and we will find ourselves in a mild or severe crisis.

I must mention still an additional factor to be considered. All businessmen must constantly plan ahead. A typical retail haberdasher may need to plan only six months ahead-for example, to order from the wholesaler in the spring the clothes he wants to stock in the fall. But a manufacturer may need to plan his output, both in kind and in quantity, a year or two years ahead. A builder or a manufacturer deciding whether to expand his plant may need to plan three to five years ahead. And so on.

All these investment plans call for a present outlay of money tc be recouped, hopefully with a profit, at the completion of a certain period. Nearly all plans made during an already prolonged inflation are consciously or unconsciously based on the assumptior of the continuance of this inflation. If this assumption is disappointed, there will be widespread losses, bankruptcies, and unfinished projects; and, of course, unemployment.

Attempts to Compensate

One further point must be made about the role of expectations. In the early stage of any long-term inflation (and this stage may per sist for several years) the rise in prices does not keep pace with the increase in the money stock, be cause most people do not regare the rise in prices as permanent In the middle stages of inflation people begin to assume first tha the past price increases are per manent and then that the past rate of price increase is likely to continue into the future. They therefore try to make compensating readjustments. But these widespread efforts to make protective readjustments (demanding higher wages, higher interest, higher rents, borrowing more, buying in advance, and so forth) tend in themselves to increase the rate of price increase still further.

This explains why it is an illusion to assume, as so many inflationists have done in the last decade or two, that some uniform "moderate" rate of price rise -3, 4, or 5 per cent - can be kept going year by year indefinitely by some uniform corresponding increase in the money supply or other means. It is not merely that the expectation of such a price rise will lead speculators, investors, entrepreneurs, workers, lenders, borrowers, consumers, and so on to try to anticipate it, thus destroying any stimulative effect, but that these countervailing and cost-raising actions by private individuals and groups will put political pressure on the government and the monetary managers to increase the rate of inflation to prevent unemployment and depression.

As soon as it is recognized that the past rate of inflation has been accelerative, expectations arise that they will continue to be accelerative. Still further compensating reactions by individuals take place. This is still another reason why it is so hard to stop a long-term inflation. Even if the monetary authorities halt the increase in the money supply, price advances will tend to go on for a while.

The Impact Is Uneven

I must confess at this point that, in order not to introduce too many complications at once, I have been indulging in a dangerous oversimplification. This is to talk in terms of aggregates and averages – an aggregate increase in the money supply, an average increase in prices of such-andsuch per cent. Discussion in such terms can be grossly misleading if it involves the tacit assumption (as it sometimes does) that everybody is affected in the same proportion, or that all prices rise simultaneously and by a uniform percentage. One of the chief consequences of any inflation, on the contrary, is the wanton way in which it redistributes wealth and income.

The new credit or new money is always paid out first to certain specific groups, increasing their income; it is spent by them in turn to other specific groups, and these in turn deal with still other groups, until the new money has percolated through the whole community. The groups to whom the money goes first are benefited most; those to whom it comes last are hurt most.

But the point at which the new money enters the economy also affects the balance and structure of production. In an analysis published in 1931. Prices and Production. F. A. Havek pointed out that an increase in the money supply made available to entrepreneurs through increased bank credit would at first cause an increase in the demand of capital goods in relation to consumer goods, and hence would raise the prices of capital goods in relation to those of consumer goods. This would lead to an expansion of the capital goods industries in relation to the consumer goods industries. But the same annual rate of increase in the money supply would have to continue in order to maintain this new relationship. In fact, in order to bring about any further relative expansion of the capital goods industries the new money or credit would have to increase at a constantly increasing rate. And if the original monetary inflation were not annually continued at at least the initial rate, there would be a reversal in the price relationship of capital goods and consumer goods, bring-

ing on a relative forced shrinkage in the capital goods industries, leading to depression.

The Addict's Dilemma

So this is the dilemma that inflation finally brings us to. We have a tiger by the tail. If we try by inflation to keep the economy at a constant peak of full employment and expanding incomes we must constantly increase the pace of inflation, with a day of crackup and collapse inevitable in any case; and meanwhile even a galloping inflation may be accompanied by bankruptcies and unemployment. If we stop or even substantially slow down the inflation, we are certain to disappoint expectations: we may face price declines, insolvencies, unemployment, and at least a mild crisis.

But this does not mean that we should continue inflating. We should stop the inflation as soon as we can, and face the possibility of an immediate but relatively mild crisis to prevent far greater evils later on Inflation has been sometimes compared to a drug. The comparison is even more apt than is imagined by most of the people who make it. When a youth takes a drug that he doesn't need in the first place, he has to take larger and larger quantities of it to experience the same lift or "high" - with increasingly demoralizing consequences. But if he tries to halt, he may experience agonizing withdrawal symptoms.

The Outlook

What is the actual outlook today? This is in any case difficult to say, and any forecast might be outdated by the time this appears in print. Powerful forces are operating in both directions. The Federal Reserve Board, compared with the recent past, has been following a policy of severe monetary restraint. As a result, the stock of money in the country, consisting of demand deposits plus currency held by the public, increased from December to June at a 4 per cent annual rate, and from June to the end of October was practically unchanged. In comparison, money grew at an annual 7 per cent rate in the previous two years.

In addition to this record of monetary restraint, the unified Federal budget for the fiscal year 1970 has been planned to yield a surplus (though it may not be achieved) of as much as \$6 billion.

On the other hand, as soon as one result or accompaniment of monetary restraint was a slight increase in unemployment, the Nixon Administration came under sharp criticism. It remains to be seen whether the administration will be able or willing to hold to its course in restraining inflation.

Congress has been recently voting increases in expenditures and reductions in taxes. The political pressures for continuing inflation are still enormously greater than the pressures for stopping it.

Astronomical Inflation

INFLATION may be troubling us Earthlings, but now it has taken on a deep space aspect. According to the National Research Bureau, back in 1891 a French widow allegedly left 100,000 francs (then worth \$20,000) to the first man to set foot on a heavenly body.

Astronaut Neil Armstrong is theoretically in a position to collect, but thanks to the inflation in France over the decades, that once-munificent sum now has a purchasing power equivalent to \$180.

Had an American widow made the same \$20,000 bequest it would have suffered quite a severe shrinkage, too. Today it would have a purchasing power equivalent to \$4,180.

> RICHARD H. MILLER From the October 1969 issue of *Brevits* issued by Vance, Sanders & Company, Inc.



INFLATION:

what it means

WILLIAM B. BOYD

INFLATION is one of the most abused and misused words in the English language – a word that is on everyone's lips, yet a word which few bother to define. It has several meanings and most people - even professional economists use them interchangeably, sometimes within the same paragraph. How can we possibly discuss and reason about a thing whose meaning has not been established? So our thinking is muddled, a Tower of Babel situation has developed. and in our confusion we are fumbling around trying to alleviate results, rather than trying to find and eliminate the cause. This is having a most injurious effect upon our society, undermining our economy, destroying our money, and threatening our liberty-a very serious situation.

So, it is my purpose to see what can be done to set us thinking straight about this matter, to bring some order out of the chaos. Specifically, I shall define inflation so that we'll know what we're talking about, show how it works and what it does, trace it back to its cause, and finally suggest a cure. This is a very ambitious undertaking — maybe too ambitious — but worth trying if it sets you thinking.

First, what is inflation? Its basic meaning is a swelling up, a blowing up, a puffing up, an increase, an expansion. In its economic sense the word is used with at least five different meanings:

(1) Any increase at all in the supply of money (money in the broadest sense, which includes credit).

(2) An increase in the supply of money (again in the broadest sense) that outruns

Mr. Boyd, a businessman in Fairfield, Connecticut, also is interested in the Fairfield Country Day School where he recently presented these views on inflation to students of the 9th Grade.

the increase in the supply of goods.

(3) An increase in the average level of prices – that is, any wide or general increase in prices.

(4) An increase in the prices of widely used goods – such as steel or lumber or oil or foodstuffs.

(5) Any boom or period of intense business activity or prosperity.

The best of the lot, because it is precise enough not to cause confusion and still simple enough to be widely understood, is number 2-an increase in the supply of money that outruns the increase in the supply of goods.

Empowering the Federal Government to Cause Inflation

Now, using this definition, who or what organization can increase the supply of money? You know the answer: in our country the only organization allowed to manufacture money is the Federal government. Therefore, the Federal government is the only force that can cause inflation. If anyone else manufactures money, it is called counterfeiting. Counterfeiting in principle is the same as inflation; but counterfeiting is illegal, and cannot be done on as grand a scale as inflation.

The effects of inflation are very

bad. It causes a drop in the purchasing power of our money which is another way of saying that it raises prices. But goods and services are not becoming more expensive; it is our money that is becoming cheaper.

Now this process of pumping more money into circulation does not cause prices to rise evenly or all at the same time: inflation never affects everybody equally and simultaneously. If it did, its effects would cancel out. Inflation begins with some particular group. Say the government puts more money into circulation by paving defense contractors or by increasing subsidies to farmers. The incomes of those who receive this money go up first. Those who begin to spend the money first buy at the old price levels. But their additional buying begins to force up prices. Those whose money incomes have not been raised are faced with paying higher prices than before, that is, the purchasing power of their incomes has been reduced. Eventually, through the play of economic forces, the monev-incomes of most of them may be increased. But if these incomes are increased either less or later than the average prices of what they buy, they will never make up the loss they suffered from inflation. So a few people gain at the expense of all the rest

of us. The hardest hit are retired people and widows trying to live on the shrunken incomes from pensions, social security, or the interest on savings.

Furthermore, inflation reduces the value of ordinary savings, such as savings bank deposits, life insurance, and bonds. This reduces our incentive to save. "Spend now while your money will still buy something," becomes the mode. Thus, people are lured into extravagance and speculation.

Inflation deludes businessmen as to the amount of capital available and as to the demand for goods. The signals (prices) have been falsified and businessmen therefore miscalculate and make bad investments of scarce capital. These bad investments will later have to be liquidated. This is called a recession or a depression.

Inflation upsets the relationships of goods (prices) and services (wages) to one another, setting group against group, class against class. Those who have suffered loss resent those who profited from inflation. Even the moderate gainers envy the bigger gainers. People see that the new distribution of income and wealth that goes on during inflation is not the result of merit, effort, or productiveness, but of luck, speculation, or political favoritism.

In the end, if it is kept up, in-

flation destroys our money and creates financial chaos in which our liberty is lost – that is, it brings oppressive government controls of wages, prices, and the use of our property.

Deficit Spending and Monetizing the Debt

Well, you may ask, if the results of inflation are so bad, why does our government inflate? The men in government manufacture money to pay for the costs of their programs which run beyond what they dare collect from us in taxes. The terms for this operation are "deficit spending" and "monetizing the debt."

What are these programs that are costing so much money? Here are some of them: putting a man on the moon, developing a supersonic transport plane (which would probably be used mainly by the jet set), paying for surplus farm products to keep their prices up, subsidizing our merchant marine in order that the shipowners can afford to pay the high wages demanded by the maritime unions, rebuilding cities, paying for people to go to school and college, free medical care for the aged, slum clearance, relief, public housing, fighting so-called poverty, unemployment compensation, social security, foreign aid, and - most expensive of all - waging war.

Why doesn't government cut out or cut down on some of these programs? Each program is popular with some people, they now have a vested interest in it, and the politicians fear that if they cut programs they will lose votes.

So. the cause of government deficit spending and the consequent inflation is the pressure of various groups to get from government special favors and privileges for themselves (this is unintelligent selfishness) and the attempts of other groups to solve the problems of the poor and the unfortunate by using the force of government (this is false philanthropy). Unintelligent selfishness and false philanthropy are based on the theory that everything can be accomplished through the use of force by the state and this use of force is justified by claiming that it is done by democratically-elected politicians for a noble end - "the public good" - or "the greatest good for the greatest number"

The people in government want to stay in office. For this they need votes. So they want to be good guys and do everything for everybody. Since the end of World War II, they have been pursuing three goals which would seem to be mutually contradictory: (1) constantly rising wages, (2) full employment, and (3) stable prices.

Incompatible Objectives

It does not seem possible that all three of these could be achieved at the same time. If government tries to have constantly rising wages (regardless of productivity), full employment is impossible unless prices can be increased to cover the increased costs; but then more money must be pumped into the economy to enable consumers to pay the higher prices. So, in reality, we would be giving up the goal of stable prices and engaging in a continuous inflation.

On the other hand, the combination of constantly rising wages and stable prices would soon bring on unemployment, while the combination of stable prices and full employment would mean the end of the constant annual "rounds" of wage increases, regardless of productivity. But as matters are, union leaders would never stand for this. So government tries to achieve constantly rising wages and full employment by means of inflation and then tries to maintain stable prices by means of controls. This is like stepping on the accelerator and the brake pedal at the same time. And it always ends in disaster.

Yet, there is a cure for inflation and a way in which the three goals of rising wages, stable prices, and high employment could be achieved, provided these goals are reasonably defined or interpreted. This way is through the restoration of a sound currency and a genuinely free economy. This means that our money must be tied to gold and that our government must be strictly limited to its proper functions of securing our lives, liberty, and property from violence and fraud and of administering justice in accordance with an objective code of laws.

The chain of cause and effect, in which inflation and its consequences are links, begins with the false ideas of statism: that all things are possible through the use of force by government. Since ideas precede and determine actions, it is no use trying to change results far down the line without first entirely exploding the original ideas from which all the other ideas and actions stem. Therefore, the cure for the ills we have been discussing must begin with the refuting and discarding of the ideas of government interventionism and the replacing of these with an understanding and acceptance of the sound ideas of freedom - the free market, private property. limited government philosophy. This requires that we sharpen our minds and discipline our thinking. For man's only weapon in the fight against error and for the truth is . reason.

Like an Oak Tree

As AN OAK gathers what it needs by means of its roots and branches, so must we gather what we need by means of our five senses — seeing, hearing, touching, smelling, and tasting. As we feed our bodies by means of physical food and drink, so must we feed our minds by means of knowledge and facts gathered by our senses.

Everything that we are, everything that we hear, everything that we smell, touch, or taste, makes us stronger or weaker mentally. By associating with people who are ambitious, industrious, loyal, and neighborly, we become ambitious, industrious, loyal, and neighborly.

As the dyer takes the color of the dye in which he works, so do we change and become like the persons with whom we associate.

From the Curtis Courier of December 1969, edited by Thomas Dreier

IDEAS ON



THE INVISIBLE HAND

IN A RECENT U.S. History lecture, one of our professors made what seemed to be a scornful reference to Adam Smith's "invisible hand." His intention seemed to be to discredit a 420-page treatise on economics by quoting one metaphor! The context in which this oftquoted metaphor appears in Smith's writing is his exposition of the theory that if each person pursues his own good, the good of society as a whole will result.

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society....

He generally, indeed, neither intends to promote the public interest,

nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security: and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases. led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.1

How does this good result? Why, through the law of supply and de-

Miss Nichols is a student at the University of California at Davis.

¹ Adam Smith, An Inquiry Into the Nature and Causes of the Wealth of Nations, (Chicago: Encyclopaedia Britannica, Inc., 1952. Vol. 39, Great Books of the Western World), p. 194.

mand, another concept which many pedagogues would have us believe is "outmoded." In a free economy, when demand for a product increases, the price goes up, capital is attracted by the prospect of profits, production is increased, the price eventually goes down again as supply fills demand. What Smith wanted to stress is that all this happens *automatically* without the need for central planning. Indeed, central planning only hampers the process.

Regulating Bodily Functions

Consider your own body, as an analogy. Every minute that you live, your chest is acting as a bellows to fill your body's demand for oxygen, your heart is pumping blood throughout your tissues to distribute oxygen and nutrients, vour nervous system carries messages to muscles and glands without your conscious knowledge, biochemical mechanisms determine what substances are to be filtered out by your kidneys, and so forth. All of this goes on *automatically* so as to keep your system in a state of dynamic equilibrium. It is the result of natural processes.

Suppose you had to regulate your body's functions. Do you think you could remember how many times a minute to breathe while telling your heart how fast to beat? Would you know when to tell your pyloric valve to open? Could you decide how much corticotrophic hormone the anterior lobe of your pituitary ought to secrete at any given time? No, admittedly you could not. Your body is too complex, and as it is, you can hardly get your automobile to the service station before the gas gauge registers empty or remember to get the oil changed on schedule.

And yet, there are many people who believe that a single brain or a collective brain sitting in the White House can regulate the economy of the United States. which is every bit as complex as the human body. Imagine trying to regulate satisfactorily the daily purchases of 200 million people and setting the wages of a labor force of 80 million people and determining the production of 11 million business units! If you had that job, how would you do it so that everyone got what he wanted and nobody was victimized?

Leave It Alone!

The only correct answer would be to do nothing, *leave it alone*, and let the natural processes of supply and demand do the job. Just as it sometimes happens that a patient's condition can be worsened by the chronic reliance on too many pills of too many varieties, so has our economy been sickened by swallowing the pills of tariff, subsidy, price regulation, compulsory insurance programs, inflation, urban renewal, farm programs, rent controls, a plethora of taxes, and so forth, ad infinitum, ad nauseam. If we want our patient to recover, we are going to have to take his pills away from him, regardless of his neurotic dependence on them. Fortunately, as long as our patient is still alive, we know that his bodily processes are going on, even though distorted by his unwise self-doctoring. Just so, to the extent that our economy is functioning, it is doing so on the basis of natural processes carried on by individuals working, trading, and seeking their own welfare, regardless of the distortions brought about by government intervention. The law of supply and demand has been violated many times, but to my knowledge, it has never been repealed!

No Plan

EVERYWHERE you look in American history, you find examples of things seeming to happen by accident – without intention. Americans had no over-all plan. They had something more important. They had personal freedom to plan their own affairs; and the avalanche of human energy resulting from that freedom swept from the Atlantic to the Pacific, from the Great Lakes to the Rio Grande.

IDEAS ON

LIBERTY

In 75 years, within a man's lifetime, France and Russia had vanished from the continent. England had been pushed back on the north; Spain had yielded the Floridas, New Mexico, Arizona, California, and Texas. The whole vast extent of the country had been covered by one nation, a tumultuous multitude of free men men of heterogeneous races and creeds — living under the weakest government in all the world. The people who had been left to shift for themselves — who had learned the lessons of realism and learned them the hard way — were creating a new world and carrying forward the revolution which was beginning to shake the foundation of the Old World.

HENRY GRADY WEAVER, The Mainspring of Human Progress



Brighten the Corner

Two sermons delivered by the Reverend WILLIAM L. EDELEN from the pulpit of Plymouth Congregational Church in Wichita, Kansas, October 19, 1969. Mr. Edelen serves there as Director of Adult Education.

Children's Sermon: ABOUT FEEDING BEARS

I'VE DONE lots of camping in Yellowstone and the Grand Tetons, and I want to tell you a true story about the bears in Yellowstone that a park ranger told to me.

He said that every year, after tourist season is over and the cold winds and snow come, bears die by the dozens by the side of the roads, and the rangers have to come and carry them off and bury them.

Do you know why they die?

They are still waiting for the handouts from the tourists – the cookies, the candy, the bread – but the tourists have gone, and no more handouts. And they sit and wait by the road for the food that is not to come, and they die there.

For they have forgotten something, through the generations of bears that have been doing this. They have forgotten how to prepare for winter, and how to dig for themselves, and how to go into the woods and eat what they have to eat and do what they must do to survive the winter. They have become so used to being fed from the road — with all the free handouts.

This can happen to people, can't it?

There are some things in life that can't be borrowed, that can't be given to us. No one can prepare your mind for you, or study for you. No one else can develop your talents for you, whatever your talents are. No one can do your praying for you, or develop your relationship with God for you. No one can do your daily work for you.

The most important things in life you must do for yourself – and dig, and prepare, and work.

And to sit idly by the side of the road and wait and wait and wait for your parents to give things to you, or your government, or your church — for someone to give to you things that can't be given — is to die, even as the Yellowstone bears!

Adult Sermon: BRIGHTEN THE CORNER

THE ILLUSTRATION from a recent magazine adequately sets our theme. The scene is the Board of Directors meeting room of a large corporation. At the head of the table the president of the company is on his feet. All the Board members are looking benignly in his direction. The president is pounding the desk, ranting and raving, and he says this:

We have to serve the public, and give the public what it wants, even if we have to shame them into it.

Even if we have to beat them over the head. Even if we have to embarrass them. Even if we have to humiliate them, shame them, intimidate them. We're going to serve them, even if it kills them.

The history of mankind reeks with *this* kind of tyrannical service to mankind – coercion, tyranny – that goes under the prostituted name of service to mankind.

One hundred years ago there was a Russian landowner named Petrashevsky, who said this:

Finding nothing worthy of my attachment either among women or men, I have vowed myself to the service of mankind. In other words, not being able to find any man or woman worthy of my friendship, I will now serve all mankind as a whole. You can imagine what kind of service this man gave.

Some of the worst tyrannies of our day are pledged to the service of mankind, and function by pitting neighbor against neighbor. The communist service to mankind is to foster revolution. Czechoslovakia is being served, no doubt. We're going to serve mankind even if we have to kill them in the service. We're going to save mankind. Service and saving often go together, you will notice, when you have doctrinaire despotism or tyranny in the name of service. We have many groups that are going to save and serve mankind, even if it kills mankind. This is classed as "service to the lost," the lost always being those who view life differently from the one who is saved. The saved are always going to serve the lost.

The "Chosen" Ones

The worst tyrannies of history have been committed under this motivation. Practically every age of history has always known what is called "a chosen group." The pride in being chosen can very easily make the transition to tyranny to convince those not chosen that the chosen are chosen. We will show you we're chosen even if it kills you. The chosen always want to serve and save everyone else. There are always those around who claim to be chosen: a chosen nation, a chosen race, a chosen religion, a chosen church, a chosen party, and on and on into the night.

The attitude that one is a member of a chosen group fosters much of man's inhumanity to man. Cromwell first said it: "I beg you. in the name of God, think that you may be mistaken." Our church fathers. John Calvin and Martin Luther, were not above serving and saving mankind through slicing off a few heads - literally, that is. As Jesus put it: "The hour will come, always, when whoever kills you will think he is serving God and man. They do this and only prove that they know neither God or man."

The hour will come when whoever kills you, with bodily murder, mental murder, spiritual murder, national murder, emotional murder, murder of dignity, will say he is doing it in the name of God.

Martin Luther was going to save and serve mankind even if he had to kill to do it. Luther was going to save people and serve mankind, and so he lashed out at the people with words of unmatched ferocity. Luther said this to aristocrats, and I quote him directly: "Let there be no half measures; cut their throats, transfix them, leave no stone unturned; to kill a rebel is to destroy a mad dog." And then Luther told his aristocratic patrons: "A prince can enter heaven by shedding of blood more certainly than by means of prayer."

Marxism started out, too, as a movement to save the people, to serve the people. We have only to ask, "What is the real condition of the people being 'saved' and 'served' in those areas controlled by the Marxist movement?" The German philosopher, Nietzsche, feared that the people would turn history into a shallow swamp, and it has been said that Hitler was more influenced by Luther and Nietzsche than any other Germans until he, too, wanted to save and serve people by giving them a master race and killing all who stood in his way. In the book, The Rise and Fall of the Third Reich, William L. Schirer says that had Calvin and Luther had at their disposal the powers and instruments of coercion that Hitler possessed, they would have used them.

The Many Faces of Despotism

Despotism can come individually, nationally, racially, religiously, collectively. Despotism can come in all forms and all shapes and all sizes. There are various degrees of fanaticism and tyranny. Fanatics can always justify hatred and cruelty as *service* to God and man, regardless of the perversity of the crime or offense. As our Biblical text says: "The hour will come when whoever kills you will think he is offering a service to God. They will do this because they have not known God."

Does it not seem amazing to you how many saviours and servants of the world hate people - how many who hate people are going to serve them by killing them - in order to make the ideal society? The ideal always, of course, their *ideal*. Their ideal being a perfect German society, white society. Gentile society, American, English, democrat, republican, socialistic, Lutheran, Church of Christ, Jehovah's Witnesses. Roman Catholic. And on and on and on into the night, where blood runs deep. having been released by those who want to serve and save mankind - who want to save the lost, the lost always being those who hold different views of life. In Belfast today the Roman Catholics are going to save the people, and the Protestants are going to save the people, even though they totally destroy each other in the process.

It is easy to get discouraged with the concept of service to man. We read of the population explosion forecast where people are going to run over the earth in the multibillions — just masses and masses of flesh. We lose perspective, we lose the concept of service; we don't see people, we see numbers, just gross numbers.

I think of millions of years of evolution, of cultures, magnificent cultures. now buried in dust and debris. I read about Aldous Huxlev's "brave new world" and cold society, with the machine society. with the mechanical man, the "Homo mechanicus." And I get discouraged and ask: "How, how in all this maze do you serve man?" I look around at wars and rumors of war, and I ask: "Where do we find meaning in our little three-score years and ten, and how can this concept of service mean anything when viewed over the long picture and against such a background of humanity in the mass?"

A Personal Experience

Well, there is a concept that means a great deal to me personally - my personal philosophy of service and activity-and I will say it as clearly as I can for whatever it may be worth to someone. I first started thinking about this when I was flying in Korea looking at the frozen and hungry children around me and wondering how "to brighten the corner" where I was, where I found myself. And in those off-hours when not flying, working in those orphanages right around me and with those children that I stumbled over daily, brightening the corner there was not really too difficult – one of the most meaningful experiences of my life.

The world of plant and animal life often progresses to a higher plane of existence through what is known as a mutation. You remember from your own biology lessons that a mutation is where an alteration or change in form or quality takes place in a plant or animal, either slight or abrupt. A mutation is where a little genetic change has taken place. which in turn, if propagated, can produce an entire new series or new species or new plant. Some of our most beautiful plants have come from mutation, and so, too, in animal life. The magnificent peppermint carnations that you get at the floral house come from a virus-inflicted mutation a number of years back. Many of our most beautiful tulips are the result of mutations. In other words, mutations play a vital part in the evolution, and often improvement, of our plant life.

It gives great meaning to me and for me to think that man evolves, that you and I go through changes and transformations and evolve and grow due to mutations that take place in every generation, the moral mutation being the life of a man or a woman who has cast some light into the darkness, and beauty into the ugliness, and truth into the deceit. And when a human life does this, a mutation has taken place, life has been lifted, man has *morally* evolved a little higher, climbing one step further away from the mud of his conception toward the stars of his destiny.

Moral Mutations

The story of man's history is the story of mutations. A mutation took place when fire was discovered, when the wheel was born: similarly, mutations took place at the birth of writing, art, weaving and pottery, building and transport, back in the dim beginnings of agriculture, of worship, of education, of poetry, of philosophy, of commerce, of music. The history of mankind is a history of mutations, each good mutation has moved man one step higher up the ladder of moral and mental and cultural evolution. What I am saving is that each person whose life has been a mutation for good has served man in the highest manner in which man can be served.

Moral mutations take place in every village, in every state, in every nation, in every generation, through the lives of individuals – from the giant mutations of a Jesus Christ, a Gandhi, a Schweitzer, to the thousands of smaller mutations by those whose names are not known fifty miles from home. In the long run, it is no doubt the moral mutations of those thousands whose names are not known that most lift man one step higher up the ladder of moral and ethical and cultural evolution.

What I am saying is that perhaps the greatest service we can give to our fellow man is to so grow ourselves—mentally, morally, ethically, spiritually—that we become a living mutation in our community, in our time, where we are, where we work, where we live, where we play, where we worship. By so becoming a mutation for good ourselves, we help to establish a climate wherein other men can grow into a slightly improved change of the species man.

We Start with Ourselves

How do we become a mutative force? We start with ourselves. It is very difficult to serve and save the world until first you serve and save yourself. A man cannot possibly offer anything to mankind if he has nothing to offer, either mentally, emotionally, or spiritually. We start with ourselves; for what you are, the world is; what you are, the church is; what you are, the community is; you're *it*. We serve — we become a mutative force in society — by first developing ourselves, our talents, our potential, our minds, by doing our work well, where we are.

Can you imagine what a remarkable transformation would take place tomorrow only if every person performed his daily work with excellence, with competency, with honor, with integrity, ethically? Can you imagine how others would benefit and be served from such a grace as one's work well done? Nothing starts anywhere if it does not start with you, on your block, in your home. What you are, the community is!

They asked Bernard Baruch on his 94th birthday—this friend and advisor to kings and presidents they asked him this question: "Who do you consider the greatest man of this age?" And what a marvelous answer came back: "Who is the greatest man of this age? The man who is doing his own job well every day, the mother who gets up in the morning and cooks breakfast for her family."

The Distant Approach

Have you ever noticed how, with so many people, love, service, and concern always increase in direct proportion to the distance involved? It is so much easier to be showing concern for those in China than it is to show love and concern for those close to you. I

have seen people who became so concerned about serving others' problems that their entire family became delinguent. So what has been proven, what has been given to the world? Only that now there are two problems instead of one. As Dr. Charles Malik put it: "The most important thing in serving the needy is to make sure that you do not become needy yourself." And Paul Tillich asked: "How can we heal others if we can't heal ourselves and our own?" Do you realize that Jesus practically never went out of his way to help people? But he helped those in his path, as he went about his business, doing his own "thing." The phrase is used over and over and over in the gospels. They came to him, they sought him out, he healed those in his path.

Just look around you at those people whom God has already put in your path-without even changing your daily routine. Look at the human being whom you have been ignoring: the yardman, the man downtown at the parking lot, your business associates, the waiters, secretaries, bank teller, friends, all of the men and women that you stumble over daily in your rounds of activities. We stumble over the bodies of our family daily while looking outward and away trying to find someone else to love or to help. We stumble over the bodies of those closest to us, in our daily paths, while trying to find someone to love in some world-wide evangelistic program.

Let us brighten the corner where we are, and what a fantastic transformation will take place in this world, and more especially in your world and my world. How do you brighten the corner? By living by what you know to be true. Sure, we all can cry, "Oh, there is so much that I don't understand, so much that is not clear." But let's live, daily, where we are, by what we do know to be true and good.

You know that beauty is better than ugliness, truth is better than deceit. love is better than hate. trust is better than suspicion. hope is better than despair. enlightenment and education is better than ignorance. There are so very many, many things that we do know to be true, and there is no doubt here; so let's live by that, and the mutative effects will be massive. Finally, you see, our own healing becomes a part of the healing of the world: and when enough individuals become healed then the world is becoming healed. And what more magnificent service could we offer to mankind than

to heal ourselves, so that our health might heal others.

This is my last word:

• In serving the needy, the most important thing is not to become needy yourself.

• In serving the sick, the most important thing is not to become sick yourself.

• In bringing light to darkness, the most important thing is not to become dark yourself.

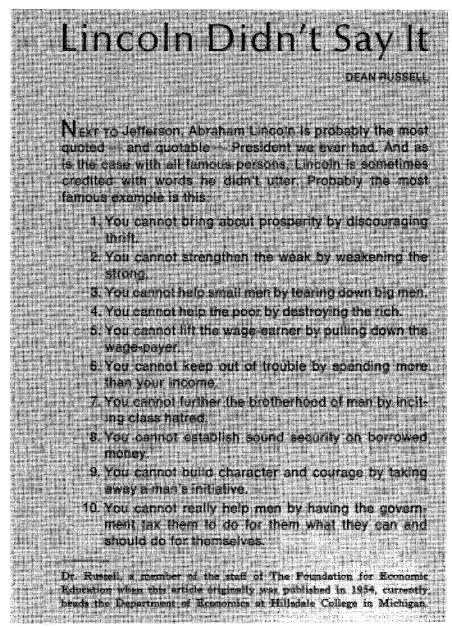
• In imparting strength to weakness, the most important thing is not to become weak yourself.

• In leading, the most important thing is to make sure that you are not being led by powers of darkness.

• In passing on truth, the most important thing is to make sure that your sources of truth are never cut off.

• In witnessing to the grace and beauty and truth of God, the most important thing is to let Him through His spirit work through you.

This is service, that through your individual mutative influence, through your light, through you, maybe just one person – but one person – will have found that next step up the evolutionary ladder.



Lincom didn't say that — at least, not in those exact words. The author is William J. H. Boetcker, a retired Presbyterian minister. Yet the words were credited to Lincoln In a halfonal magazine, in the Congressional Record, and in many house organs, newspapers, and radio programs. The confusion began when an excellent quotation on procerty by Lincoln was primed on one side of a leaflet. which contained the above 10 points, unsigned, on the other side. Several prominent persons who received the teatlet iumped to the conclusion that Lincoln was the author of both quotations, and they said so. As a result, we will probably continue to read this "Lincoln quotation" in various Many of us are overly impressed by whose name is actually signed to a statement rather than by what the statement says. Because of this, unfortunately, there will probably be some who will tend to discount the merit of these 10 principles when they lind that they were phrased by a comparatively unknown minister rather than by Abraham Lincoln. It so, they should know that i mooth certainly endorsed these same general ideas in different words. There is no doubt that they represent his fundamental ballets. For example, note is Lincoln himself along the same line:

"Property is the fruit of labor. Property is desirable, is a positive good in the world. That some should be tich 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 to build one for himself, thus by example assuring that his own shall be safe from violence. ... I take it that it is best for all to leave each man free to acquire property as fast as he can. Some will get wealthy. I don't believe in a taw to prevent a man from getting rich; it would do more harm than

good."

What is Overpopulation?

ROUSAS J. RUSHDOONY



INCREASINGLY, modern man has come to believe that he faces a serious problem in the near future because of the so-called population explosion. The world, he is told, is running out of room and out of food for man, and, as a result, drastic measures may be necessary in order to prevent disaster.

Before the question, "Does the world face overpopulation?" can be answered, another question must be faced: "What is overpopulation?"

Perhaps the best answer to this latter question is that overpopulation is an imbalance between the number of people living and their food supply, which results in hunger and even famine because the available production of food cannot match the population's needs.

In terms of this definition, it must be recognized that the world has had the problem of overpopu-

lation several hundred times at least, and probably almost consistently during much of its his-This ancient problem of tory. overpopulation can best be understood by a few illustrations, and first of all, its history in North America. North America had a continuing problem of overpopulation before the coming of the white man. The Indian population was small, perhaps at most 250,-000 to 300,000, and perhaps even less than half that number. Nevertheless, overpopulation was a continual problem, and it led to hunger, famine, and cannibalism. The very word "cannibal" comes from the Americas. It is derived from the Spanish Canibales, which came from the Carib calina, galibi, literally, strong men, i.e., those who practiced it. Both among the tribes contacted by Columbus and in the areas now a part of the United States, cannibalism was

fairly prevalent. Its purpose was certainly often religious and magical, but it was also clearly economical as well, often dictated by the shortage of food. Among some tribes, its magical use continued into the nineteenth century:

From time immemorial the Skidi Pawnees had offered a human sacrifice to the morning star each spring in order to insure the success of their crops of corn, beans, and pumpkins. The victim was always a prisoner of war, and usually a pure young woman. She was treated kindly by her captors and kept in ignorance of her fate until the morning she was led, painted from head to foot in sacred red and black colors, to a scaffold in the center of the village, tied to the crossbars, and, just as the morning star appeared in the sky, killed by a medicine arrow shot through her heart 1

This is clearly a case of human sacrifice; human sacrifice was often accompanied by a ritual act of cannibalism. But there also existed extensive cannibalism as a remedy for hunger. Indian cannibalism is very little reported or studied. Older Indians who recalled it were unwilling to discuss readily a subject which brought much disrepute to them. Modern writers, prone to a romantic view of the Indians, tend to mention it only in passing and then to justify it by unfavorable references to cruelty in Western civilization.² Most general works give us only a brief, passing reference to such facts as this, concerning a South American people: "Some of the many bands of Tupian people bred their women to captives of war and raised the resultant children like yeal calves for butchering."³ In most cases, however, cannibalism for economic reasons was a last resort, although not an uncommon last resort.

Hungry Hunters

Why were the Indians hungry, when they had the wealth of the Americas at their disposal? The answer is that their food supply was severely limited. A few animals, like the passenger pigeon, were seasonally plentiful, but they were not always available. Before the white man brought the horse and the gun to the Indians, buffalo were much more difficult to hunt, and smaller game was normally depended on. In forested areas, game was scarce. Living off the land is a poor way to live and

¹ John C. Ewers, Artists of the Old West. (New York: Doubleday & Co., 1965), p. 48.

² Oliver La Farge, A Pictorial History of the American Indian (New York: Crown Publishers, 1957), p. 56.

³ William Brandon, with Alvin M. Josephy, Jr., *The American Heritage Book* of *Indians* (New York: American Heritage Publishing Co., 1961), p. 56.

makes only a marginal and precarious existence possible. It was rarely done by white men. The fur trappers went into the wilderness with food and equipment as their capital: a grubstake made survival possible. Settlers moved out in large groups, with at least two years' income as capital, to clear, plant, and develop the soil. As the settlers developed the soil, the nearby game increased, because the food supply increased. Game drew close to settlements and multiplied, and Indians drew close to settlers to get the game as well as the settlers' produce and animals. The coming of the white man increased the food supply, because the white man developed the earth.4

Here is the key to the problem. The total Indian population in North America was not greater than many an average-sized American city, and yet the Indians were unable to produce enough food to avoid famine. Some counties in California today produce more food than perhaps the Indians of North, South, and Central America ever saw in a year. For hunting tribes, famine was a normal thing.

From the Abnaki of Maine through the Micmac of Nova Scotia and the Montagnais and Naskapi of Quebec and Labrador, hunger was increasingly a part of life and legend, in direct proportion as farming dwindled and hunting became the only gainful occupation. Even in a country teeming, as the saying goes, with game, the chase is bound to be a shaky provider, there being nothing stable about a supply of wild meat.⁵

Agriculture, then, was a preventative to famine, but it was not a certain preventative. Repeatedly. the farming peoples of Europe have undergone famine. Thus, in England alone, during the thirteenth century, hunger and famine struck in 1203, 1209, 1224, 1235, 1239, 1243, 1257, 1258, 1271, 1286, 1289, 1294, 1295, and 1298. In 1258, for example, it was reported that the poor ate the bark of trees, and horseflesh, and that 20,000 starved in London, which was the report also for 1235. In 1239, we are told that people ate their children, and 1286, a 23 years' famine began, with the

⁴ See James C. Malin, The Grassland of North America: Prolomena to Its History, pp. 138-140, Lawrence, Kansas, 1947; and Malin, "The Grassland of North America: its Occupancy and the Challenge of Continuous Reappraisals," p. 10, Background Paper No. 19, prepared for the Wenner-Gren Foundation International Symposium, "Man's Role in Changing the Face of the Earth," Princeton Inn, Princeton, New Jersey, June 16-22, 1955. See also Marquis de Chastellex. Travels in North America in the Years 1780, 1781, and 1782, vol. I. p. 79f., Chapel Hill: University of North Carolina Press, 1963.

⁵ Brandon, op. cit., p. 175.

years cited above being simply the severest years.⁶

The Plymouth colony in New England faced famine immediately as a result of its farming. The cause for this is stated candidly by Bradford: it was the socialistic system of farming which created the famine:

At length, after much debate of things, the Govr (with the advice of the cheefest among them) gave way that they should set corne every man for his owne particuler, and in that regard trust to them selves; in all other things to goe on in the generall way as before. And so assigned to every family a parcell of land, according to the proportion of their number for that end, only for present use (but made no devission for inheritance), and ranged all boys and vouths under some famillie. This had very good success; for it made all hands very industrious, so as much more corne was planted then other waise would have bene by any means the Govr or any other could use, and saved him a great deall of trouble, and gave farr better contente. The women now wente willingly into the feild, and tooke their little-ones with them to set corne, which before would aledg weaknes, and inabilitie; whom to have compelled would have bene thought great tiranie and oppression.

The experience that was had in this commone course and condition, tried sundrie years, and that amongst godly and sober men. may well evince the vanitie of that conceite of Platos and other ancients, applauded by some of later times; - that the taking away of propertie and bringing in communitie into a comone wealth. would make them happy and florishing; as if they were wiser than God. For this communitie (so farr as it was) was found to breed much confusion and discontent, and retard much imployment that would have been to their benefite and comforte.7

The problem at Plymouth Plantation was thus a restrictive form of farming, one imposed from London, which undercut initiative and production. Basic to sound farming, therefore, is freedom from statist controls. As Montesquieu observed, "Countries are not cultivated in proportion to their fertility, but to their liberty."⁸

Famine Was Normal

Not nature but man is the major cause of famine. Natural disasters such as storms, droughts,

⁶ E. Parmalee Prentice, Hunger and History, the Influence of Hunger on Human History (Caldwell, Idaho: Caxton Printers, 1951), p. 6f. See also Prentice, Farming for Famine (Garden City, N.Y.: Doubleday, Doran, 1936), p. 7f. Prentice's data comes from Cornelius Walford, The Famines of the World: Past and Present, March 19, 1878, Journal of the Royal Statistical Society, vol. 41, p. 433; vol. 42, p. 79.

⁷ William T. Davis, editor, *Bradford's History of Plymouth Plantation*, 1606-1646 (New York: Charles Scribner's Sons, 1908), p. 146f.

⁸ Montesquieu, Spirit of Laws, Bk. xviii, ch. 3.

and frost can indeed destroy crops, but their effect is local, not total. Free production elsewhere can alleviate a shortage in a stricken area. In 1967, killing frosts in the San Joaquin Valley of California in some cases destroved all the fruit on many farms. Farms sometimes within sight of a devastated farm came through the frost with minor damage. Some produce was in short supply, but other produce supplied the lack by bumper crops. Farmers whose crops were destroyed did not starve. Those who had savings used them to weather the year; many wives went to work to alleviate the financial crisis. The uses of freedom and industry saw these farmers through a crisis without any famine, nor with any proclamation of a national disaster calling for Federal funds.

Walford listed, among the causes of famine, the following factors which are of particular significance:

- 1. The prevention of cultivation or the willful destruction of crops;
- 2. Defective agriculture caused by communistic control of land;
- 3. Governmental interference by regulation or taxation;
- 4. Currency restrictions, including debasing the coin.9

The world, during its least populous eras, suffered most from hunger and famine. As statist controls receded in the nineteenth century, hunger also began to recede, and Western civilization increasingly saw famine banished and hunger successfully dealt with. A far greater population enjoyed far greater supplies of food.

The reason for this increased supply of food was not simply technology nor the Industrial Revolution. The application of technology to Russian farming since 1917 has not seen an increase in the food supply. On the contrary, food production has declined, and the Ukraine, once the breadbasket of Europe, has been unable to feed the Soviet Union. Technology has not increased the food supply of Red China nor of any other socialist regime. The reason for the increased supply of food was the growth of freedom. Now "thanks to Socialism, famine again stalks the earth. . . . Like a horse and carriage, 'socialism and hunger' inevitably go together." As a result, "much of Eastern Europe, once a granary in its own right, lives off U. S. surpluses, while the fertile farmlands of Algeria, which produced so bountifully for the hard-working colons, have turned barren."10 In the United States, as a result of

¹⁰ Barron's, December 20, 1965, p. 1.

⁹ Cited by Prentice, Hunger and History, p. 4.

the increasing socialistic controls of farming, food production is declining to the point that civil government officials can speak of future food problems, and a conservative writer can describe the policy as planned famine.¹¹

Hunger Endemic to Socialism

The answer, then, to our problem is in essence this: socialism always creates ultimately an imbalance between the number of people living and their food supply which results in hunger or famine. There is in this sense, therefore, always a problem of overpopulation under socialism. Hunger is chronic and endemic to socialism.

Socialism, moreover, affects both the food supply, by limiting it, and also the population, by both expanding it at one stage and limiting it at another. Socialism grows in a country by catering to a group or to various groups by subsidies. These subsidies penalize the taxpayers for the benefit of favored groups who are termed "needy" but are now in actuality an undeservedly privileged group.

A subsidized group experiences a "population explosion." Being released from the responsibility of work, it lacks inhibitions and feels no constraint about rapid in-

crease. Since more children may be a means of increased subsidy. the inhibition of financial accountability and responsibility is removed. Absorption with sex. and irresponsible sex. are products of a welfare economy. Zoo animals have a different sexuality than do wild animals.¹² A zoo is a welfare economy, and the zoo animals are privileged-and enslaved-animals. A welfare economics gives a privileged and enslaved status to a segment of the population. Again, America gives us a familiar and telling illustration. The American Negro, under slavery, existed in a welfare economy, because slavery is a form of welfare economics. The possession of slaves gave social status but it was not an economic asset. The slave gained cradle to grave security for a minimum of work. His living conditions were sometimes good and sometimes bad, but, on the whole, far superior to those of the peoples of Red China and the Soviet Union.

The census of 1860 estimated that the total population of the United States would reach "about a hundred million" by 1900, but it estimated that, with emancipation likely, due to the start of the Civil War, "so many (Negroes) will be transferred from a faster to a

¹¹ Dan P. Van Gorder, Ill Fares the Land (Boston: Western Islands, 1968).

¹² Robert Ardrey, African Genesis (New York: Atheneum, 1961), p. 118.

slower rate of increase." that "nine millions of the colored, in the year 1900, appears a large estimate."¹³ The Negro population in 1900 reached 8.833.994, the total population, 75,994,575. There was thus a marked decline in the ratio of the colored population after 36 years of freedom. Slavery. as a welfare economy, had encouraged the birth rate. The further the Negro left behind slavery and plantation patronage, the more his population statistics indicated a declining birth rate. The following statistics are revealing.¹⁴

Y ear	White	Negro	Indian	Total
(millions)				
1860	26.9	4.4	.044	31.4
1900	66.8	8.8	.237	76.0
1930	110.3	11.9	.332	122.8
1960	158.8	18.9	.524	179.3

The above statistics do not list Chinese, Japanese, and other groups. The Indians are included to indicate that an Indian population greater than ever existed in pre-Columbian America now lives with millions of Americans without famine. Indian America was overpopulated; modern white America is not.

The statistics are also important in that they show the marked de-

cline in the ratio of Negroes to whites from 1860 to 1930: the Indians showed some increase in the same time, because the reservation system provided them with a welfare economy. The census of 1860 did not include Western Indians, but their numbers at that time were limited in the West. Their strong resistance has created the illusion of great numbers in men's minds. The Negro ratio declined to 1930 but returned to about the same ratio as 1860 in 1960. In other words, a generation of welfare, beginning with the New Deal of President Franklin Delano Roosevelt, provided a return to the subsidized conditions of the Negro of 1860.

The Worst Elements Subsidized

Thus, a welfare economy, up to a point, increases a segment of the population. Whether in ancient Rome or modern America, this increase is of the worst segment of the population in ability, intelligence, and character. The worst elements of the white and Negro populations are subsidized to the detriment of the nonsubsidized whites and Negroes.

In 1965, in the cities, nearly onefourth of the Negro women who have been married were now divorced or separated as against a 7.9 per cent rate for white women. "Nearly one out of every four

¹³ Eighth Census, 1860, p. 8.

¹⁴ Ian Golenpaul, editor, *Information*, *Please Almanac*, 1967 (New York: Simon and Schuster, 1966), p. 324.

Negro babies born" was illegitimate, a Negro illegitimacy rate of 23.6 per cent as against a white rate of 3.07. More than half of all Negro children in 1965 were helped by Federal-state Aid to Dependent Children, as against an 8 per cent rate for white children. The birth rate for Negroes was 40 per cent higher than for whites, so that it was estimated that by 1972 "Negroes will make up oneeighth of the U. S. population."¹⁵ The situation since 1965 has become rapidly worse.

However, with full socialism, the need to gain votes by subsidy gives way to totalitarian controls over all the people, and population figures then show a frequent decline. Population figures for the U.S.S.R. are estimates only, in that the data is carefully guarded by that state, and the indications of population decline and famine are many.

The answer to the question, "What is overpopulation?" is that it is an imbalance between the number of people living and their food supply. This is a condition the world has faced during most of its history. As a result, we can answer the question, "Does the world face overpopulation?" that it indeed does face overpopulation, hunger, and famine progressively as it becomes more and more socialistic. Socialism has a poor record when it comes to eliminating problems: its answer adds up to eliminating people. In fact, one of socialism's major and chronic problems is simply people. Socialism on the one hand destroys production, and, on the other, breeds up the least desirable elements. Its answer is to find the people at fault. Socialism always faces overpopulation: a free economy does • not.

The foregoing article is reprinted by permission from the opening chapter of *The Myth of Over-Population* (Nutley, New Jersey: Craig Press, 1969). The Reverend Mr. Rushdoony, who is President of the Chalcedon Foundation in California, deals in subsequent chapters with the problems:

> Too Many People? The Economics of Population Control The Possibilities of Depopulation

Copies of his book (56 pages, paperbacked) may be obtained at \$1.50 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, New York 10533.

¹⁵ "Negro Revolt – The Big City Crisis," in San Francisco Call-Bulletin, Saturday, August 14, 1965, p. 2.



HANS F. SENNHOLZ

WAR is the brutal and inhuman method of settling differences between governments. But no matter how great these differences may be, the old arbitrator, time, finds an end to it all. Even the Vietnam war will one day come to its end.

War cannot be driven out by war, for the use of evil breeds more evil, hostility more hostility, and the use of force more force. Peace is the natural state of man, war the temporary repeal of reason and virtue.

In the words of James Madison, fourth President of the United States, "Of all the enemies to public liberty war is, perhaps, the most to be dreaded, because it comprises and develops the germ of every other. War is the parent of armies; from these proceed debts and taxes; and armies, and debts, and taxes are the known instruments for bringing the many under the domination of the few. In war, too, the discretionary power of the Executive is extended; its influence in dealing out offices, honors, and emoluments is multiplied; and all the means of seducing the minds, are added to those of subduing the force, of the people. . . . No nation could preserve its freedom in the midst of continual warfare."

If this is the true nature of war we can deduce the problems and tasks of its liquidation. We need no government committees that plan for peace, no politicians or commissioners who draft new laws or regulations, merely peace.

Armies can be disbanded without delay. Free labor markets can absorb any number of veterans discharged from military duty. For, contrary to popular opinion, there is no given number of jobs. The demand for labor depends entirely on the price of labor. And this price readily adjusts to any change in labor supply. There is no record of any serious unemployment when millions of American veterans were discharged

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania and is a noted writer and lecturer for freedom.

after the Civil War or the two world wars.

It is true, in labor markets that have been rendered rigid through labor union power, surpluses actually may exist. Employment in unionized industries is no longer subject to adjustment through wage flexibility, but is regulated by seniority rule and union decision. This is why returning veterans cannot expect to find employment in these industries unless they meet union specifications.

Termination of war also should permit repeal of all wartime levies. Tax rates can be reduced to prewar levels unless the government incurred a debt in pursuit of the war. In past American wars, such as the Revolution and the Civil War, the debt was retired in about one generation. The World War I debt was retired rapidly until the Great Depression administrations increased it again. After World War II. no attempt was made at debt reduction. In fact, large budget deficits have added more than \$120 billion to the previous debt.

Wartime taxes are not easily reduced after the war. Government does not voluntarily surrender revenue; its departments and bureaus have insatiable appetites, and powerful pressure groups clamor for government services and benefits. Paraphrasing James Madison, especially in the postwar period government influence in dealing out offices and benefits is multiplied with the lush revenues from wartime levies, "and all the means of seducing the minds are added to those of subduing the force of the people."

Could this be the objective of the government committees and planning boards created by several state governments? Peace needs no commissioners or directors, merely reduction and retrenchment of government. The American economy needs no help from government in its necessary readjustment from war to peacetime production. It is true, armament and ammunition industries will have to curtail their operations, and consumers' goods industries will expand. In a market economy such as ours, labor and capital always respond to the purchasing power of consumers. And in case tax levies on business should be reduced, the end of war will lead to new capital formation. which in turn would increase economic output and raise standards of living. How can government planning committees aid business in production improvements?

We love peace, but not peace at any price. We do not fear the economic consequences of peace, but the government that is planning for peace. The E's have it

W. A. PATON

INDIVIDUAL MAN shows a persistent tendency to organize his thinking and activity. Watch the small child eagerly observing his surroundings and you will soon note evidences of the desire to systematize the results of his observations. He starts sizing up, pondering, as well as accumulating information. And if he is not thwarted by the misdirected efforts of parents and teachers he will build up his store of savvy at an amazing rate.

This tendency to array, to classify, is something for which to be thankful. Without the taxonomic inclination, indeed, it is hard to see how one could cope constructively with the complexities of life on this planet, especially if he is a member of a "civilized" community. If the individual is disorganized, lacking in understanding, the flow of phenomena encountered these days is likely to take on the appearance of a callithumpian parade — with resulting bewilderment and inability to chart an orderly course.

At the best the life road traveled will have rough spots. Buffets from an unfriendly nature can be expected as well as difficulties and obstacles arising from association with the other humans who are making the trip.

General Standards Needed

It is a great help, in contending with both routine affairs and special problems, to have established guidelines, primary rules or standards, to which reference can readily be made. We need stances, positions. These should be developed early in life, and become so

Dr. Paton is Professor Emeritus of Accounting and of Economics, University of Michigan, and is known throughout the world for his outstanding work in these fields. His current comments on American attitudes and behavior are worthy of everyone's attention.

embedded in attitudes and behavior, so firmly a part of the warp and woof of the personality, as to provide automatically for right answers and actions in dealing with the great mass of circumstances and events met with in ordinary living. It would be a great nuisance, for example, if intensive study and research were required — every day - to settle questions of sleeping and waking hours, attire, mealtimes and menus, how and when to go to work, and so on. Those who spend a lot of time and energy on such matters rob themselves of the possibility of giving serious attention to the more crucial - and interesting - concerns with which they are faced. (Of course, if the lady really enjoys taking a half-day or more to select a pair of shoes, and has no more pressing or attractive alternatives, a defense can be made for dillydallying at the store.)

A degree of flexibility, it need hardly be said, is required as the individual steers his way through varying, changing conditions, and deals with the complications and cruxes that are bound to arise. The chap who becomes rigidly "set in his ways" will often vex his associates, and stand in his own light as well.

An endowment of basic standards, it should be understood, will not automatically solve complex problems. Such standards provide nothing more than a broad background on which to keep an eye during the process of doing the research and pondering required in coming to reasonable conclusions, forming sound judgments.

The Twin E's as Possible Guidelines

There are numerous underlying concepts and points of view that may serve as building blocks for character and conduct. Some are rooted in ethics, some stress technology, some show special concern for man's physical well-being, some are heavily loaded with political considerations - and the reader can readily lengthen the list. The twin E's, efficiency and equity, have been roughly useful to me, particularly in dealing with issues in business operation and economics generally. I'm a longtime admirer of high-level performance, top-flight workmanship, in all lines of endeavor, including the most lowly pursuits. And in company with practically everybody I am also devoted to the ideal of being fair, acting justly, in all transactions and relationships. These benchmarks of behavior are not unduly obscure, and are widely acceptable in general terms. They are nevertheless in need of a bit of examination, in part because there is considerable

misunderstanding associated with their meanings and applications.

Efficiency - E One

Regarded from an economic point of view efficiency is peculiarly an aspect of the process of production; it represents productivity raised to a higher power. In relation to the individual, efficiency refers to both quality and quantity of personal accomplishment. In a broader sense efficiency means overall utilization of manpower and other resources in a superior manner, with the goal of maximizing the flow of goods from the economic pipeline.

The level of efficiency, performance, is accordingly a crucial factor in connection with all efforts to maintain or increase the volume of output. Thus those who are genuinely devoted to bettering standards of living, abolishing poverty, and making more generous handouts abroad should be earnest - if not ardent - advocates of efficient industrial operation. They cannot reasonably condone carelessness and indifference in economic activity, anywhere along the line, to say nothing of outright loafing and soldiering. They must support good organization and administration. They must be on the alert to oppose interferences by either governmental or private agencies with new methods and techniques designed to reduce waste, promote better operating performance, and spur product improvement and development of new products.

In the area of commonplace manual activities, such as laying shingles or trimming hedges, it is usually fairly easy to select the star operatives, and measure margins of superiority. Even here, however, there are questions to settle in making comparisons and forming judgments. When the boys go out to the swamp to pick wild raspberries no one expects 8-year-old Tom to equal the accomplishment of his 12-year-old brother Dick. and 16-year-old Harry may well do still better. Likewise in appraising mature workers, in any field, muscular strength, evesight, native intelligence, and other inherent qualities must be taken into account in rating performances (which doesn't mean that the handicapped person. even if his effort is 100 per cent, should be rated above or be paid more than a superior workman whose effort falls short of the best of which he is capable).

In the area of those providing professional and quasiprofessional services, including inventors, researchers, explorers, and other highly specialized workers in the economic vineyard, it is more difficult to array individuals in terms of level of performance. In the field of business management, for example, who constitute the outstanding performers, who make up the second flight, the third-placers, and so on? In appraising executives, breakdowns are of course necessary in terms of years of experience, levels of responsibility. and other factors. The familiar tests of the rung of the financial ladder attained by the manager personally, or by the organization he heads, are not free from objection as measures of essential talent and accomplishment.

Among rank-and-file staff, and laymen generally, as we all know. the supervisors and bosses, including the top brass, often don't rank very high on any scale. Opinions and judgments from such quarters, as we also know, are likely to be uninformed and arbitrary. The widespread bias against business. which will probably always be with us, stands in the way of good measurement of either people or enterprises by popular polls. Even among students of economics the key functions of the entrepreneur. and the savers and investors who provide the necessary funds, are often not clearly seen, and convincing anyone that speculators may be rendering an important service in the market economy is next to impossible. The confirmed socialist, of course, insists on classifying all capitalists as parasitic, if not as full-fledged jaegers.

One other phase of the problem of defining and measuring level of performance should be mentioned. In an economy dominated by machine methods, and with production largely in the hands of business enterprises commanding a complex of tools and employing a substantial number of people, furnishing a wide range of services. the individual participant is a part of a package of productive factors and his particular contribution may not be readily determinable. Moreover, the performance of the particular human agent is bound to vary with the nature of the package of which he is a part. The individual's productivity, in other words, will vary with his technological endowment, and the overall setting in which he is working. To use a very simple example from farm operation, the man plowing with an old-model tractor, not in first-class condition, cannot be expected to match the showing of the man operating a fast, modern machine.

Increasing attention is being given nowadays, quite properly, to ways and means of motivating the members of the enterprise staff, and of judging capability and achievement. But there are no easy solutions, no convincing and infallible measurement techniques, conveniently at hand. Where two or more factors contribute to a common end there is literally no valid physical method of assigning the value of the result to the contributing factors. The only significant solution available is the imputation furnished automatically by the mechanism of the market.

Efficiency — Conditions Conducive and Contrary

In the above comments on E One are some suggestions and implications as to conditions encouraging or discouraging to high-level effort and achievement in the economic realm, but this important subject needs further attention -at least to the extent of outlining major factors. In extending the discussion, briefly, no attempt will be made to distinguish sharply between efficiency in the sense of personal, individual accomplishment and the level of performance - productivity - for the economy as a whole. The two aspects are of course closely related.

The basic requirement is the institution of the market, referred to above. In the absence of a market economy there is no substantial foundation for top-flight workmanship and high productivity. Without a market there can be no exchange (beyond clumsy barter), without exchange there is no opportunity to specialize, and without specialization there is little or no incentive to become an expert, a master, in any line. Even the potential jack-of-alltrades has small chance in a nonmarket environment, lacking an array of trades at which he can bestir himself.

The term "miracle" has often been used to characterize the amazing accomplishment of the free competitive market as the director of economic activity both production and distribution - and this characterization scarcely goes too far. Reflecting the continuing interplay of the attitudes and desires of the host of participants, the market gives the signals that channel resources into an intricate array of enterprises, turning out a still more elaborate pattern of products, and at the same time determines the shares in the output – makes the awards to all contributors and claimants. The market, in other words, provides an impersonal and automatic thermostat for the entire economic process.

The institution of the market has proved to be tough, but it is not indestructible. If laden with a maze of governmental restrictions and interferences the market's ability to translate promptly into prices the ever-changing flow of impulses from buyers and sellers, can be impaired to the point

of malfunction, and if the process of piling on regulations is continued the end result will be some form of central planning or socialist dictatorship. It is beyond the scope of this small piece to present an indictment of collectivism, of any variety, but both the historical and current scenes present an abundance of evidence of the inefficiencies and tyrannies that flow from governmental operation of the economy. If the reader has any doubts on this point let him take a careful look at the experience of the U.S. post office or any other business run by a political apparatus of any kind. Or let him read the devastating account of "The Rise and Fall of the National Plan", in Great Britain, by the Honorable J. Enoch Powell,¹ and follow this with Dr. G. Warren Nutter's The Strange World of Ivan Ivanov.²

Other Wasteful Interventions

Government action is not the only source of interference with the free market which threatens the survival of that institution. The restraints and arbitrary rules

imposed by labor unions constitute a substantial roadblock to the functioning of the market, especially in certain sections of the mechanism, and undoubtedly result in inefficient use of available resources and serious limitation of output. I still wince when I read about the 20-25-hour work week. What in the world will a guy do with the remaining 140 or more hours? And I can't overlook the soldiering tendencies, lack of discipline. seniority rules. required featherbedding, and other features of present-day labor practice standing in the way of greater productivity.

Inefficient use of human resources wouldn't be so bad if we could keep the machines going without the men. Driving past a construction job on the highway, and seeing the equipment standing idle, in broad daylight and good weather as well as when working conditions are unfavorable, continues to be a painful experience for us worrywarts. The spectacle is then made infuriating by a big sign with the legend "Your Tax Dollars at Work".

But we can't blame all our economic troubles and losses on government and the unions – or on the weather. There is a widespread infection amongst us of bad habits and practices. Vandalism is rampant, and we are becoming so

¹ Chapter 3 of Freedom and Reality, a brilliant book by Powell. B. T. Batsford, LTD., London, 1969.

² World Publishing Co., Cleveland, 1969. Professor Nutter, currently an important official of the U.S. Department of Defense, is an outstanding authority on Russian economics.

callous that the smashing of a score of plate-glass windows. coupled with a bit of looting, or the wrecking of a schoolroom, are hardly worth noticing in the news. Major criminal action, organized and disorganized, and increasing at a frightening pace, is surely man-made, and can only be curbed by concerted human effort. Fire does a fantastic amount of damage across the country, and few communities of substantial size escape serious conflagrations for long periods. There are undoubtedly many cases of arson and sabotage. and lightning does strike occasionally. but sheer carelessness by smokers and others remains the number-one cause. The carnage on the highways, resulting in 55,000 deaths and about 80 times that number of reported injuries annually, should perhaps be put at the top of the list. As every police officer and car repairman knows (and anyone willing to observe and think does too), traffic accidents are accounted for by the bad driving habits of a substantial fraction of the licensed operators. and the effort to shift the responsibility to the cars - remarkably well-built and efficient vehicles is one of the silliest nonsense campaigns to which we have been subjected. The universal method adopted by the newspapers in reporting accidents, describing the car capers that bring disaster to the driver, is truly exasperation reading.

If anyone were to stand on the street corner and poll passers-by with the simple question: "Do you favor waste, inefficiency, and low productivity?" it is safe to say that he would receive negative answers from almost all of those whose attention he could attract to his question. But if he could follow this up by studies of the habits and conduct of a sample of the people polled he would find condoning of bad present-day practices and conditions, and active participation therein, in many cases. Again, unfortunately, we don't practice what we preach.

We Have Still Fared Well

With all our frailties and troubles the performance of the American economy to date has been almost incredibly good, by all comparative tests. Favored by the stimulus of a substantial degree of laissez faire, in our political and economic environment, the economic output of the United States, in both volume and variety of products, has been the world's wonder - and envy. The basic statistics of our affluence, and margin of superiority, have been widely publicized, and will not be quoted here. Instead I'll tell a short story of personal experience. About fif-

teen years back I was pinned down by bad weather at the "Soo", in Michigan, and was trying to do a bit of writing while waiting at the hotel. My ball-point suddenly gave out - as they still do. Down town I went to get a couple of new cartridges. In the department store I wandered into I caught sight of a small barrel filled with plastic, retractable ball-point pens, attractive in appearance and priced - you won't believe it - at 5¢ each! I tried one or two and ended up buying a dozen, the total cost being less than the price of a refill cartridge for my old pen. As I recall there was only one lemon in the bunch. This episode impressed me then and has continued to impress me as token evidence of the tremendous surge of American technology and the marvels afforded by our operating methods and the mechanism of the free market. I would wager, and give odds, if there were any way of deciding, that if a government bureau or board had been established when the Pilgrim Fathers came ashore from the Mayflower, about 350 years ago, with instructions to produce a workable ballpoint pen to retail for a nickel. the result to date would be the complete failure of the undertaking. They would probably still not have a pen of any kind.

The problem now, in a nutshell,

is how to retain the essential features and blessings of the system.

Equity — E Two

The other side of the coin is equity, fairness, and this is a more elusive concept, and hence more widely misinterpreted, than the standard of efficiency, superior performance. About all that can be attempted here is to throw some light on major misunderstandings, and indicate the linkage of E-Two with E-One.

The fatal weakness in the popular view of the meaning of equity results from loading the concept heavily with sentimentality turning it into an emotional lodestar. According to this slant on the subject, fairness in human conduct means giving primary attention to the needs and desires of the "disadvantaged", the "underprivileged", coupled at times with actual restraint and discouragement of the more talented and productive amongst us. This view is grounded in part on the familiar tendency in family life to devote especial care to the sick or ailing member, or the crippled child. No one in today's society objects to this, even where there is no possibility of cure or improvement. But is it reasonable to extend this policy generally, throughout the economy? I believe that a negative answer is

justified. If the individual, on a strictly voluntary basis, devotes a part of his energy and resources to helping his fellowmen, nearby or far away, who have unsatisfied wants or are in distress, such action should be acceptable in a free society. But this is a far cry from using the powers of government, plus private pressures from fund drives and other organized appeals, to take by force - or other form of coercion - the fruits of the labor of the more capable and successful, and ladle out the resources so seized, through the agency of costly boards and bureaus, in welfare programs often clearly unwise and wasteful. I see no good reason for considering such action as falling within the zone of fair or equitable policy.

Here, today, is our number-one problem. We are suffering from a sustained surge of catering to the underdog, including proposals that approach complete irrationality. Especially hard to take, by those who still respect common sense and objective thinking, are the suggestions and demands pouring out from the current swarm of psychologists, sociologists, welfare workers, and other "social science" groups infesting college campuses. These "experts" don't hesitate to push programs that are bound to intensify and perpetuate the problems they are ostensibly trying to solve - which is folly compounded.

Equity is not softness. Good management often requires hardboiled decisions and actions and these need not be at odds with justice. Trying to fit square pegs into round holes, it is universally agreed, is not practical procedure. There is also wide acceptance of the view that it is bad policy to substitute inferior materials for those called for in the job specifications, or to employ unsafe or substandard methods and equipment. Why can't it also be recognized that displacing the more efficient and productive employees to make room for inferior personnel is no way to run the shop, in any field? It should be plain, too, that heavy concentration of available funds on training the backward, the unpromising, to the neglect of selecting and developing the talented, the individuals with high potential, will eventually saw off the limb of advancing technology and high output we are sitting on. We can't afford, in short, to misuse the pegs.

But those objecting to proposals they regard as stupid and dangerous should not be too eager to suppress the agitators and nuts, in professorial ranks and elsewhere, who are leading the parade. A free society must provide elbowroom for diverse points of view and varying procedures. Miss Folly is riding hard today and effective resistance is badly needed, but let's not call on government to unhorse her if this can possibly be avoided. On the other hand, it would be quite proper if the governing boards of our colleges and universities, and the taxpayers who are putting up the money, were to insist on revision of current employment and tenure practices.

A Place for Kindness

Before commenting further on the economic side of the picture it should be noted that there is no intention here of attacking or disparaging the exercise of kindness in human relations. Patting little Tommy on the head, or even giving him a Roosevelt dime on occasion, is a personal right against which there is no need to tilt. Befriending a neighbor, even when his difficulty or condition is of his own making, and similar acts, likewise may pass muster as unobjectionable conduct. Two warning notes should be sounded First, don't indulge your friendly spirit to the point of being a nuisance, a busybody, or a person who leaves the sink at home full of dirty dishes while out helping others to tidy up. Second, look at the secondary as well as the immediate effects of your generous impulses, and if the object of your

solicitude will be damaged, for the long pull, rather than benefited, try substituting good advice for other interferences; or, even better, try tending faithfully to your affairs and letting the other fellow have a go at solving his own problems.

There is likewise no intention of suggesting that courtesy. friendliness, humane treatment, are not compatible with efficient operation in business enterprise. For ten years Mrs. Paton and I. with our granddaughter Victoria on occasion, have been regular patrons of a restaurant (a small chain) which we have decided is the best that can be found for our needs. And the major factor which attracts us. in addition to the superb soups, is the quality of the service. The "girls" are carefully selected and rigorously trained and they are conspicuously considerate as well as capable. We have traveled about quite a bit and have never found their equal elsewhere - regarding the staff as a whole.

I suspect that careful investigation would show that usually one will find efficiency where he encounters courtesy.

Fair Prices and Fair Profits

This is the area in which efficiency and equity must be confronted. What is a "fair" price? What is a "fair" profit? These terms have been bandied on the economic scene for a long time. and they have finally become so entrenched and commonplace that everyone assumes they have settled, significant meanings. The fact is, however, that it would be difficult to find anything else in the everyday economic lexicon with less substance - or with more potential for mischief – than these popular expressions. Here is a spot where there is a real need for dissipation of the fog.

With regard to price adjustments and profit levels, "fairness" is widely considered to be identical with "reasonableness", and this view has been encouraged by several prominent business tycoons. "We only want a fair profit". "We are only entitled to reasonable prices and earnings". This is the kind of talk that has become very familiar and is widely applauded. Actually such remarks are twaddle, and it is painful to see them taken seriously. A proper price is the resultant of the array of attitudes and impulses from buyers and sellers in a free, competitive market. In such a market the producer is entitled – to put it bluntly - to get all he can, to sell at the highest price obtainable under the prevailing conditions of demand and supply. It is sheer nonsense to prate about any other standard than that furnished by the market, the director and arbiter of our economic affairs and a stern disciplinarian to boot.

And substantially the same test must be applied in passing judgment on the level of the net earnings. profits. The contractual. hired, layer of funds is of course entitled to the price agreed upon. as long as it is financially feasible to make the payments as agreed. Those who provide the laver of exposed, high-risk capital, as stockholders or proprietors, on the other hand, have no contract with the business entity or with customers assuring them of a particular rate of return, or any return. Their investments are cast upon the waters of the conditions of the particular business, with the state of the economy as a whole as background, and they face the possibility of loss as well as gain. Nevertheless the layer of risk or venture money is essential, crucial, in private business operation; and a continuing accumulation and flow of such funds into the economy cannot be expected unless the overall economic climate provides at least the prospect of an income sufficient to justify the responsibilities and hazards undertaken. It's a bit like fishing; not many would indulge in this activity if there were no hope of catching anything. The

greater the hazard, moreover, the more necessary the possibility of hitting the jackpot, making an unusually high rate of income. In other words, there must be a lure appropriate to the risks assumed. Those who are forever advocating the restriction of profits to some nominal "fair" rate are in effect proposing a barrier to capital accumulation and investment and for the long pull - a barrier to the continuation of a system of private enterprise. One of the sure ways to destroy capitalism, without firing a shot, is to take away the incentive of the stockholder class. Risk is inherent in economic activity, and the only alternative to the shouldering of this risk by private capital is use of the tax power of the state – which means some form of socialism.

"Profiteering" should be mentioned. This is a term that ought to be banished from our vocabulary. I doubt if there can be found. either in popular discussion or in the technical literature, a clearcut, understandable definition of "profiteering". But everybody uses the expression freely, to describe those nasty people who charge "too much" for their products and make "excessive" profits. One of my professor friends - whom I won't name - recently wrote about how the ancient Greeks "discouraged profiteering in the construction of public buildings". The building contractors, so the story goes, were required to carve the amounts of their receipts and expenses "on stone tablets which were set in the walls".

Once more: prices and profits are not excessive or improper if the levels are set by the forces of the free, competitive market.

Significance of Competition

In the above comments there have been several references to the market, as the basic economic institution, and in these references the qualifying adjective "competitive" has been attached. Here is another spot where misunderstanding is rampant and an attempt to make a brief clarifying statement is in order.

Popular concepts of economic competition are generally hazy and unrealistic, and most of the treatments in the textbooks are far removed from the actual processes of price-making. The courts and regulatory commissions, too, have, often been off the track in their theories and determinations. The common opinion seems to be that competition is a harsh and chaotic process. Fairness is often regarded as unattainable in a competitive climate. There is misunderstanding as to long-run versus shortrun impacts; there is inadequate appreciation of the varving forms

and modes which market competition may take. Above all, both casual and close observers have trouble appraising the evidence that price levels and movements yield as to the existence and potency of a state of competition. Thus we see legal determinations that find lack of competition in a continuing similarity of product prices, and others that scent monopoly in varying prices in a particular market area.

Competition, it must be insisted. is not a cruel or baneful influence: it is rigorous, but neither unfair destructive. Competition nor should not be equated with misrepresentation, fraud, or any form of predatory conduct. The essence of competition is pressure on the producer to reduce costs and improve products to attract and keep customers. This pressure, stemming from other producers, may take a number of forms. It may result from improvement in product quality, better packaging, more prompt delivery, superior repair service, and so on - as well as from a lower price. Strictly speaking, the *product* is the entire set of physical elements and related conditions furnished to the customer. In practice there is a tendency to look only at the price factor in judging the presence and degree of competition, which is clearly a mistake. We should be thankful

for producers who are efficient, aggressive, innovative. These hustlers force the rest of us to grab at their fast-moving coattails and try to keep up with the technological and administrative advance. Here is the feature of the market which provides protection for the interests of the customers. Competition represents the pressure needed to keep all producers disciplined and on their toes.

Imperfect and Effective

An important aspect of the competitive process, usually overlooked, lies in the fact that competition must be imperfect in order to be effective. The hustlers and innovators just referred to are of course trying to gain an advantage by getting the jump on competitors with the new package or other improvement. If the impact of every new development were instantaneous and complete throughout the market, so that no advantage whatever could be realized by the producer whose resourcefulness is responsible for the change, there would be a serious dampening of the urge to make improvements in methods and products.

Competitive pressure is the primary roadblock to the growth of monopolistic situations. Potential competition – the possible entry of new producers into the field – is also an important antimonopoly factor. In addition there are wellknown obstacles to monopolistic overpricing in the form of elasticity of demand and possible use of substitute products.

Producers undoubtedly worry a great deal about competitors, and don't particularly enjoy seeing new heads appearing on the horizon. There is nevertheless a bright side to meeting competition, aside from the great benefit to customers. Pressures that require us to get busy are a good antidote for the inevitable dull periods. Falling into a rut is easy, but a long stay there is neither enjoyable nor conducive to effort to climb out. For a dozen years or so I was on the board of directors of a company that had begun to go slack, fall behind the procession, especially in product quality. Old customers were complaining and the situation was becoming critical. At this point a new president came on the scene and started cracking the whip. Junior executives, jarred out of a state of complacency, did a lot of growling at first. But shortly - and here's the point -

they began to take part vigorously, with obvious improvement in spirits, in the campaign to catch up with competitors. Without much doubt, for most of us, an atmosphere of hustle is preferable to a continuing state of humdrum.

* * *

It's time to wind up these observations about the E twins. Two points, pertaining to individual conduct, may be stressed in conclusion. First, the most satisfying feature of a lifetime on Mother Earth is a sense of accomplishment. This becomes very plain as we grow older. And although most of us never achieve pinnacle performance in anything it's fun to keep trying. Second. looking back on the journey provides an especially good feeling if one can recall few if any times when he behaved unfairly. The best way to run the race, for sure, is to rely on one's own power and speed, and not get in another runner's way, in the drive to hit the tape first.

The E's, like the "ayes", still have it.

Reprints of this article available, 10¢ each.

A Living Symbol

I DECIDED to wear a peace symbol.

No, not THAT peace symbol, the one used by some folks as an emblem of their protest against war in South Vietnam.

I've always held that anyone who favors war over peace isn't all here, so wearing a symbol to protest the Vietnamese war or any war is like nothing. Who needs it?

Still, seeing these people walk around with their inverted trident badges nagged me. We're all for peace, I said to myself, except most of us don't feel the need to constantly remind everyone who sees us.

Finally, I concluded that THAT peace symbol didn't really stand for peace, anyway. The inverted trident is the combined semaphore symbol for the letters ND, which stands for nuclear disarmament, and was first used in the mid-1950's by "ban the bomb" marchers in London, England.

My peace symbol was to be much older. It had its origin somewhere back in antiquity, when men got the idea that their bodies and their minds belonged to themselves and not to some slave master. The concept was refined and developed in the eons, exploding, as it were, in the American Revolution. The imperfect men of the Revolution later put together the imperfect Constitution of the United States of America.

Despite its deficiencies, the Constitution was then, and continues to be, a beacon in a world of authoritarian lust. If the dreams men dreamed could not be perfected under the Constitution. the fault lay not with it, but with the men themselves. Enough of them realized this; some of them also saw the uniqueness of the Constitution: the power of government was granted from the governed, not from some divine right or from the muzzle of a pistol, and they were free to act for themselves, not as some king or dictator directed.

Many Americans reacted posi-

Mr. Zarbin is a newspaperman in Arizona.

tively to these extraordinary conditions. They pursued self gain. Working in their own interests, they created the climate that produced opportunity, that produced jobs, that produced wealth. Among themselves they debated enterprises, funding those they believed would be profitable, rejecting those they considered would not result in good returns.

Not everyone was productive in the positive sense. Some cheated and robbed. Others, perhaps those who considered themselves more sophisticated, determined to use government to achieve for themselves what they were unable to do in the free market place. Thus, the corruption of the Constitution set in at once.

Who can say if men will always rob to accomplish for themselves what they have been denied by the good judgment of their fellow men? No one can say with certainty, but until that utopia arrives, the peaceful and productive citizens, those who would rely on themselves and on the voluntary and willing cooperation of their neighbors, must organize a police force which they name government.

This police force is not designed to restrict or to restrain any person engaged in peaceful endeavors. Nor is it intended to do for some men what other citizens will not do for them. Confident that this was the bedrock of their government, the people of the United States sought to make better lives for themselves in thousands of different ways.

Peaceful Existence Under Law

The measure of their success could be gauged in many ways. Monetarily, it was represented by the dollar, which in July, 1785, had been adopted as the money unit of the United States. The first paper money was issued in 1861 and on many of the notes the initials of the United States were printed: **US**

Some persons believe the \$ sign stands for the initials of the United States, a narrowed U atop the S with the bottom of the U cut away.

But A. H. Quiggin wrote in *The* Story of Money, "The upright lines of the dollar sign, \$, may be derived from the Pillars of Hercules, but the device is usually attributed to the Spanish contraction for *peso*, a weight." The Pillars were represented on the Spanish dollars, or "pieces of eight," before the first colonists arrived.

Whatever the origin of the dollar sign, I thought it would serve as my badge of peace. I had a friend fashion such an emblem -4 inches high - from silver, except that the bottom of the U was not cut away. A chain was attached to it and I let it hang from my neck. I wore it everywhere I went.

Among persons who saw it and asked about it, my self-devised peace symbol seemed a quick success. After stating what it was, I explained that the U.S. was the embodiment of the ideal of peaceful existence within a framework of law and that it was within this structure that maximum personal freedom, and productivity, was achieved.

The U.S., I said, stood for a positive assertion of peace. Only when there is peace can we maximize the effort to satisfy human wants and desires. War and turmoil are the great destroyers because they turn efforts and resources away from filling the real needs of human beings.

Freedom Under Limited Government

Only by strictly limiting government to its necessary role, as outlined in the Constitution, can Americans be most fully served, for they serve themselves and one another through voluntary and peaceful exchange. This remains the promise for these United States if government interventionism ceases, because interference by government in the market place is unpeaceful. In its finest sense, the U.S. stands for the best possible meaning of peace that I, to now, have been able to discern. That this peace hasn't been achieved is no slander on the concept or the potential; rather, it is a confirmation of the imperfection of man.

Nonetheless, I believe the ideal, while it may never be achieved, is known, and that if it is ever to be reached it will be done by men individually controling themselves and their actions. Peace would be the inevitable outcome. The idea is there, and that is the thought I had hoped to express with my peace emblem.

Then one day, five weeks later, I put the symbol away. I wasn't displeased with the results, but I realized there was a still better symbol, the symbol of self.

A living symbol, which we human beings may struggle to become, though we know we shall never ascend the pinnacle, is far better than an inanimate sign which can mask deception. Humans can and do deceive, too, but I don't believe they can always hide their real selves. What they are will come through in what they do and say.

The symbol of what we are should be ourselves, not a piece of lifeless metal.

The Conservative Mainstream

FRANK S. MEYER, who writes the fortnightly column called "Principles and Heresies" for the National Review, is totally uncompromising when facing his collectivist enemies. But within the conservative movement he is the great conciliator.

This does not involve Mr. Mever in legerdemain, but it does require of him considerable deftness in analysis. In The Conservative (Arlington House, Mainstream \$8.00), an extremely well-arranged collection of his columns, articles, and reviews. Mr. Mever is careful to make his own position absolutely clear. He is a "libertarian" more than he is a "traditionalist." The libertarian, he says, takes as his first principle in political affairs the freedom of the individual. In a free society the power of the state must be limited to protecting the individual in his inalienable rights, as they are menaced from within

the nation and from without. Where the libertarian philosophy is strictly applied, the state taxes only to support the police, the courts of law, the military forces, the public services that guard the individual against disease and the invasion of privacy, and the currency that is used in contractual relationships. Mr. Mever is under no illusions that we live in a libertarian society today, which means that he does not support what passes for liberalism in an age of sloppy nomenclature. He is, in a way, a Whig, but without the nineteenth century Whig's carelessness about letting a bit of socialism creep into the practical ordering of affairs.

Thinking as he does, Mr. Meyer has often been the target for traditionalist conservatives who think the pursuit of virtue is the only important consideration. Mr. Meyer parries the traditionalist's assault upon his – and the libertarian's – position by conceding that it is the duty of all men to seek virtue. But he insists on the need for individual freedom if the pursuit of virtue is to have any human or moral significance. Virtue, if compelled by an unlimited government, is, as Mr. Meyer puts it, a mere "simulacrum" of the good. The virtuous individual must make his own uncoerced choice between good and evil if he is to be something more than a zombie.

Means and Ends

So Mr. Meyer comes to his conclusion that modern conservatism must be a fusion of two different historical streams of thought. Freedom is an end, as the libertarian has always held. But it is an end only at the political level. When the higher ends of the human being are considered, freedom at the political level becomes the means which enables the individual to make his own moral and religious decisions for himself.

Since power cannot be wished out of existence, as the pure anarchist might wish, both the libertarian and the traditionalist wings of the modern conservative movement must insist on the continued relevance of the thinking of James Madison to American conditions. The powers of the central state must be divided and balanced, and

the nonenumerated powers must be left to the voluntary associations where they are not considered to be within the discretion of the local governing unit. The Madisonian would reject both the authoritarian extreme of nineteenth century conservatism and the utilitarian extreme that betrayed John Stuart Mill into socialism in his old age. There is room for "providence," "honor," and "valor" in Mr. Mever's Madisonian fusion of the conservative and libertarian streams of thought. As Mr. Meyer says, the champion of a freedom that is founded on the "deep nature of man" does not revise Patrick Henry. He does not say, "Give me liberty if it doesn't mean risking war; give me liberty, but not at the risk of nuclear death."

The traditionalist conservative who quotes Aristotle against Mr. Meyer's "fusionist" position runs up against Mr. Meyer's own superior knowledge of Aristotelian ethics. "In order to be good," said Aristotle, "one must be in a certain state when one does the several acts, i.e., one must do them as a result of choice and for the sake of the acts themselves."

From Abstract to Concrete

Mr. Meyer is more willing than most journalists to argue in terms of abstractions. But the bulk of his book applies the abstract "princi-

ple" to the concrete instance of modern "heresy." Thus Mr. Meyer is able to take on such enemies of his own conservative fusionist position as John Maynard Keynes. Robert McNamara, the majority members of Chief Justice Earl Warren's Supreme Court, Lyndon Johnson, the Kennedys, Senator Eugene McCarthy, the more "New Dealist" of the Republican Party (Javits, Lindsay, Nelson Rockefeller). At the other end of the contemporary spectrum, one finds Mr. Meyer attacking the Populism of George Wallace, who would substitute for the "liberalism" of the Eastern Establishment the tyranny of the majority as "pure will," untrammeled by "considerations of freedom and virtue." Wallace is against the modern liberal's urge to impose a "utopian design" on society. This in itself is good. But in his campaign against the "pointy heads" and the "briefcase toters," Wallace combines "nationalist and socialist appeals" (he is for the Welfare State in Alabama) and betrays a "contempt for the intellect in all its manifestations." His "polar opposite" of the modern liberal's "political perversion" is just another perversion. It is not "true conservatism."

Naturally Mr. Meyer is very much concerned with foreign policy. He takes communism seriously. Marxism is devoted to the

ultimate destruction of capitalism. the bourgeois order, or whatever you want to call the Western way of life. This being true, the confrontation of East and West cannot come to an end without surrender by one side or the other. (The surrender could be peaceful. depending on internal political overturn in Moscow and Peking, or in Washington, London, Paris, and West Berlin.) Since Mr. Meyer is in no mood to surrender, he insists on fighting the Cold War, and even such Hot Wars as the one in South Vietnam, which was forced on us by inept statecraft. If we and our allies are to be overrun by the communists, the opportunity to pursue virtue would obviously be closed to everyone save a few congenital martyrs. There would be no more scope for argument between traditional conservatives and libertarians such as Mr. Meyer: indeed, there would be no fundamental arguments of any type. We would be back in the catacombs, facing a new Dark Age.

Differences Among Friends

Mr. Meyer's insistence that Soviet intentions are wholly dishonorable leads him into controversy even with some of his generally anticommunist colleagues such as James Burnham. Burnham, as Mr. Meyer sees it, has ceased to be wholly persuaded that Moscow

must, by virtue of Leninist doctrine, be committed to an expansionist program forever. This seems to Mr. Meyer to be a repudiation on the part of Mr. Burnham of the old anticommunist position which regards Leninism as inherently imperialistic, and therefore continuously menacing to the capitalist world. Mr. Meyer's own thinking is that Moscow pursues "co-existence" purely as a tactic. It is aimed at making the Soviet Union's western front safe, thus freeing the communists to follow a strategy of subversion and the

promotion of "people's war" and "liberation" in the old colonial regions of Asia, the Middle East, Africa, and Latin America.

In the opinion of this reviewer, Mr. Meyer is correct in his assumptions. But surely Mr. Burnham, however he may have nodded in a particular instance, is in fundamental agreement with Mr. Meyer. After all, the author of the *Suicide* of the West can hardly have gone over to the cause of self-destruction through the lack of eternal vigilance.



HANDSOME BLUE LEATHERLEX FREEMAN BINDERS

\$2.50 each

Order from:

THE FOUNDATION FOR ECONOMIC EDUCATION, INC. IRVINGTON-ON-HUDSON, NEW YORK 10533