

# the Freeman

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- Interventions and Their Consequences** **Sam H. Husbands, Jr.** 195  
Arbitrary government intrusion in human affairs brings out the worst in man.
- Victims of Reform Laws** **E. C. Pasour, Jr.** 207  
Laws preventing voluntary market transactions create victims by restricting individual choice.
- Inflation and Interest Rates** **Henry Hazlitt** 213  
Inflation distorts the interest rate and unbalances the structure of production.
- World in the Grip of an Idea:**  
**4. Russia: Old Regime and**  
**New Revolutionaries** **Clarence B. Carson** 221  
No close link between the end of the czars and the gangster rule of the communists.
- A Critique of Mathematical Economics** **Lawrence W. Reed** 234  
Individual human actions are unpredictable and cannot be measured in advance.
- Problems of Great Minutude** **Joan Marie Leonard** 241  
No problem is **too small** for the free market to solve.
- Book Reviews:** 252  
"Home of the Brave: A Patriot's Guide to American History" by John A. Carroll and Odie B. Faulk  
"An Overgoverned Society" by W. Allen Wallis

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# the Freeman

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# INTERVENTIONS

and their

# CONSEQUENCES

Sam H. Husbands, Jr.

It is no longer unusual to read and hear expressions of discontent about the role of government in our lives. The proliferation of interventions and the resultant economic dislocations have made almost everyone aware that something is amiss with the notion that government can solve problems in man's creative affairs.

I propose to offer here some randomly picked examples of how government interventions almost invariably cause results directly opposite to what their proponents envisaged. Though I am primarily

stressing economic consequences, what may be more important than the economic cost is the creation of conditions which reward behavior that would be considered not only unnecessary but often reprehensible in a limited government society. This corruption of moral sensibility can affect both the perpetrators of interventions and those in or out of government who might be characterized as innocents or merely naive.

For morality to be demonstrated, a prerequisite is an element of choice. Interventions reduce choice and by their nature are discretionary, arbitrary and discriminatory. At a minimum, they cannot meet the universality test of a moral action. As police power is used to favor one side of an other-

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wise freely chosen transaction, it is my contention that there is a diminution of such virtues as integrity, consistency, humility and serenity, with the opposite characteristics of deceit, contradiction, arrogance and envy filling the void. Both those who cry out for favor and those who pander to their appeals are contributors to the malaise.

Of course, all men are capable of expressing those qualities, both good and bad, and therefore they are present in abundance in both the socialist and relatively free societies.

As an aside, it is the institutionalizing of evil in the totalitarian systems—systems which, paradoxically, purport to change man's nature for the better—which has brought about horrors inconceivable even to medieval torturers. The worst of those horrors, however, may not be the mass elimination of mankind through deliberate extermination and war, but the turning on its head the meaning of truth and integrity—in other words, *the destruction of conscience*.

### **The Market as Regulator**

In a free society any tendency for man to cheat, lie and arrogantly abuse his neighbor is continually checked by the necessity for people to live in free association. Each is dependent on the good will of his customers, benefactors, stockhold-

ers or employees, any of which can "stop drinking tea" with one who would abrogate that relationship.

In posing a number of disparate examples of the results of interventions, I should first like to touch on the law itself, and see how the emergence of politicized decisions has affected that most fundamental element in a free society.

I approach the law in a spirit of humility, and trust that my very naivete and lack of formal training in the law may lend an uncluttered aspect to my observations. For those of us who are convinced of the verities of limited government, the law based on a concept of the natural rights of man is the foundation of our faith for it essentially defines the role of government and sanctifies the individuality of the citizen. On the other hand, the growth of sociological jurisprudence has found a partnership in the arbitrary, fiat actions that necessarily flow out of the collectivist state.

Roscoe Pound's championship of the sociological school, along with the pragmatism of John Dewey, are apparently modern-day manifestations of those Machiavellian prescriptions to his Renaissance prince. As has been noted, "the omnipotence, unrestrained by law or morality"—that Machiavelli both ascribes and prescribes to the prince—is a product not so much of

his scientific detachment as of his tendency to view political power as a value, as an end in itself.

### **Laws to Reform Us**

As the power of government grows, not only will the man of integrity, consistency and humility be shut out of any government function both by his own will and that of others, but the law must necessarily lose its predictability, its fairness, its restraint. It will become instead the thrusting instrument of sociological trends and fads, a threat to civil liberties while exclaiming the opposite, a penalizer of productivity and a cannibal of the natural law itself. Frederic Bastiat's ideal of the law, as I see it, has a great deal of inherent resiliency if nurtured and not abused. But if politicized, it quickly turns and must inevitably—and no matter the sincere motives of its advocates—become anti-law, a program to defile any rational meaning to the law.

I fully respect those who teach the law, and hope their students will help return us to the law's more limited construction. But I cannot help wondering if the very number of practicing attorneys per capita may be an indication of something amiss.

The United States presently has licensed in excess of 400,000 attorneys, the ratio being on the order of one attorney for each 530 people.

At the beginning of the century the number was one to 1,100 Americans. Japan has a ratio of one to 10,300. While we can recognize the great cultural differences between Japan and the United States, these figures nevertheless are an indication that the law may be being abused, that there is among us a notion that every conflict, every slight, real or imagined, must be subjected to the full panoply of legal adjudication.

Shortly after I received these figures from the American Bar Association, I noticed an article in the October 1976 *Harper's* by Jerold Auerbach, who teaches law at Wellesley, titled "A Plague of Lawyers." To me the most interesting thing in his article is his attributing the proliferation of lawsuits and resort to the Courts to the assertion of individuality. He says, "A society in which individual rights are paramount requires an abundance of lawyers to defend and process them. In a society where lawyers abound, contentious individualism flourishes."

### **Laws Bring Lawsuits**

I would propose that individualism as brought about within the restraints of our Judeo-Christian heritage cannot account for our litigious society. On the contrary, it seems much more plausible that it is the substitution of socialist

nostrums on what used to be an individualist and responsible ethic which has been responsible for this lawsuit phenomenon. What could be a finer inducement to sue your better-off neighbor than for government to declare openly and imply covertly that it is one of its functions to make men equal, not only before the law, but also in material possessions. Interestingly, as it strives for redistribution it gradually but inexorably reduces equality before the law.

Recently an Alaskan jury allowed that a man using a pistol with a design basically unchanged for 100 years should be awarded \$3,500,000 for shooting himself in the foot and from which shooting he suffered no permanent damage. Should the judgment be sustained in the Alaskan Supreme Court, the manufacturer of the weapon would presumably be put in the position of not being able to buy insurance for his product, and with the size of those judgments, being of course unable to self-insure.

The engendering of envy often brought about through the law itself is the essence of adversary economics. Adversary economics in turn is the very fuel the Marxist would use to gain absolute political power. Paradoxically, at that point the need for lawyers drops to zero for judicial decisions are now political decisions. To weigh the

evidence is then absurd and merely play-acting. I might add, the need for marksmen for firing squads seems to rise proportionately.

Robert Payne in his biography of Lenin noted that early in the Revolution, by 1918, Lenin had acquired the ominous habit, when asked what to do with dissidents, of writing back, "Shoot them," so that in the end it became almost meaningless; it was like brushing off flies.

It is a long step from Lenin's executions to modern America. There are simply no comparisons. I would, however, contend that to the extent that envy and redistributionist theory motivate a jury, a regulatory authority, or even companies hoping for a windfall, so will predictable and even-handed justice be aborted. The decisions rendered will more clearly resemble those springing naturally from the wholly politicized state.

### **The Vagaries of Antitrust**

Professor Benjamin Rogge and D.T. Armentano among others, have made the persuasive case that antitrust law is inherently subjective. Assuming their conclusions are correct, one trouble with antitrust law is that it takes a still photo of a situation that is dynamic and bases its case on that snapshot or time slice. By the time the inevitable decrees are laid down, the

conditions have completely changed and the prescription which was never appropriate is even less so by the time it is enacted.

As Armentano says, the sacred cow of antitrust law takes for granted that firms indicted under the law actually raised prices, reduced outputs, produced shoddy goods, colluded with competitors, drove rivals from the market through predatory practices and abused their presumed monopoly power. As one reads his book, *The Myths of Antitrust*, it is readily apparent that the judges on the main decisions of the last 70 years or so had to make what were essentially subjective decisions. A fair man could have just as easily decided the case in the reverse. Consistency? Hardly!

As *Business Week* recently noted, "Enforcing antimonopoly law has become like the cold war. Almost any action of a company that dominates its industry can be considered hostile, and no one seems to know how to arrange a lasting truce in this area between Government and large companies.

"The law requires that an antitrust decision be turned over to a single judge, who must reach his conclusion by shifting evidence through the intricacies of the legal process.

"In the IBM case the Government for its part was faced with

sorting through 27 million documents, an index to which had been destroyed as the result of a settlement in the private suit that Control Data had brought against IBM."

The Federal Trade Commission challenges the ARCO-Anaconda merger partly on the basis that a merger would lessen competition in copper mining. Now that doesn't mean that ARCO is in the copper-mining business. The FTC has used what is known as the "protected entry" argument, i.e., ARCO might have gotten into the copper-mining business anyway, had they not been enjoined from buying Anaconda, therefore the country might have had another competitor.

### **Open to Corruption**

In what I view as such misuse of the law, the temptation to bribe and otherwise compromise integrity is obvious. I have on my desk a remarkable machine made by the Bunker-Ramo Corporation. On its display tube we can retrieve all the news on any publicly held company for the previous six months. For the masochist, one may also retrieve all the decrees and fiat actions taken by all the U.S. regulatory authorities for the same period. For instance, I currently have 19 pages of 9-line items on FTC decisions, each of which has a varying degree of impact on any individual company

and the general economy, but few of which would likely have come out of a court of law a few years back. Yes, I know there is the right of appeal, but hundreds of staff members working frantically to justify their salaries can soon attenuate the will of a company to challenge each arbitrary decision.

Though all defenders of free market philosophy would view the Federal regulatory authorities as arbitrary, one often hears reservations about eliminating one or the other, on the basis that though fiat lawmaking in general may be bad, in this one particular instance, parts of a commission should be kept because there would be nothing to fill the vacuum were it eliminated.

The analogy may not be exact but, to my mind, leaving a part of a regulatory authority in existence may be akin to a surgeon in a cancer operation leaving a malignant cell on purpose.

Can regulatory decisions in the final analysis be anything but arbitrary? How, considering human nature, can such actions not result in and stem from duplicity, inconsistency and a certain amount of arrogance? The free market is a remarkably civilizing force, but even threaten the use of police power to intervene on one side of the market equation in an otherwise peaceful transaction, and in my opi-

nion you release the baser elements in man.

The Food and Drug Administration and its cousin agencies are often defended on the basis that though recognizing the danger to freedom of fiat law, if society has to contend with predation after the fact, i.e., in a court of law, after harm has been rendered to one party, people will be hurt who would not have been had the regulatory authorities been doing their job.

But let us see in the case of the EDA whether in fact this works in the real world. The case of thalidomide provides defenders of such agencies as the FDA what they think to be the ultimate argument for its institution. As you recall, the resistance of one lady FDA staffer to allowing thalidomide to be distributed in the United States prevented many American children from being disfigured and crippled. What possible objection could we have to any institution which, by accident or otherwise, saved perhaps thousands of families from the calamity experienced by Europeans not under FDA protection?

### **Life Involves Risk**

Life is always a chancy thing. The frailty of life comes home to us many times a year, as friends, relatives and those only known to us through the media, depart this existence.



It is quite possible modern science might be able to sustain a man's life to 150 years, were an individual willing to deliver himself as a human guinea pig, giving up all of his freedom. But this is not man's nature. From the extremes represented by those who volunteer as test pilots, or take up hang gliding or deep sea diving, to what we consider everyday risks such as driving to work, walking under ladders, or three martinis at lunch, it is obvious that most people are willing to take chances. We would in fact find life excruciatingly dull were it not for the freedom to weigh in one's own mind risk versus reward and proceed according to our own individual temperaments.

But if a regulatory authority could eliminate an unnecessary and unknown danger and thereby save lives, can one really make an argument against it? Were it humanly possible to identify with alacrity and accuracy just those drugs which unbeknownst to the user could cause death or disablement, and make that identification within the framework of a governmental agency, can we really object?

### **Politically Motivated**

The nature of any political institution is that different and, for free men, not necessarily salutary inputs motivate the actions of government employees. Take the

case of the lady who stopped the marketing of thalidomide. How would we be motivated were we she? If penicillin were introduced today, and it was evident that certain people are allergic and can die from the consequences of the allergy, would we risk allowing the drug to be sold and have to defend our job before a Congressional Committee? Or, would it be easier to delay approval, in spite of millions dying from infection, until public pressure demanded release and in effect removed the burden of responsibility?

Let you think I am branding all government employees as ignoble, I will stress that though some who have a propensity to arrogance may find the use of police power attractive, the run of the mill government employee is likely to be inherently no better or worse a person than his privately employed neighbor. It is the pressures of government which are different and almost opposite to those facing private companies and individuals, and these are the pressures which debase their actions.

In my opinion, it is the private drug company, with its desire to maximize long term profits while protecting its good name, which has the best balance of restraint, and urgency, in introducing new products.

So, left without an FDA, what

would be the restraining influences on a drug company to prevent its releasing drugs insufficiently tested or fraudulently conceived?

•1. The most controlling influence is no doubt the desire of a firm and its management to maintain the integrity of the firm—to jealously guard its good name,—for this is the source of customer goodwill and the base on which all other corporate activities rest. Abuse it, and the demise of the company can be counted in years if not months.

•2. There are always present and in the absence of an FDA there would undoubtedly be a proliferation of non-profit consumer groups who act as self-appointed guardians of the public welfare—to be believed or not as their credibility is tested, just as everyone else's, in the free market. It is their quasi-government status which has given them disproportionate power in recent years.

•3. The insurers of the drug producer, of the doctor prescribing, and of the druggist selling, would necessarily influence their insured's behavior, even more than they do currently. The very fact that government has assumed the responsibility to determine not just the dangers of drugs, but also their efficacy, has relieved those who manufacture and dispense drugs

from having to assume full responsibility for their products.

•4. Without government agencies holding the consumer's hand and leading him to only those products deemed unharmed by mandate, *caveat emptor* must necessarily become a more vigorous notion among consumers.

### The High Tax Load

Government now takes an average of more than 40 per cent of everyone's earned income. The high tax take, and the government's debasement of the money to avoid increasing direct taxation, has perhaps had the most debilitating effect on the economy of any action by government.

As taxes take an ever larger share of the national income, a major portion of creative activity is directed toward legally avoiding the tax burden, and from this activity are born the so-called tax shelters of various brands. The real estate investment trusts, set up with a tax-free flow-through of earnings to dividends, attracted some \$30 billion in investment funds, which essentially pursued the same pieces of real estate with disastrous results.

It is not coincidental that the tax-shelter business is the one most commonly associated with fraud. When one in a high bracket seeks a

tax write-off in an investment where one may sustain no loss after taxes even if the investment is a bust, one's business judgment tends to become less discerning and discriminating. This indirect and inevitably wasteful allocation of investment resources is a direct result of government's high taxation and the resultant starvation of various private activities. These activities are then given a shot in the arm by the all-benevolent government, allowing a diversion of investment funds to the depressed area through a tax break of some kind. The major beneficiary is the bureaucracy, nourished and encouraged by the very people who are becoming its slaves.

I hope those who seem to have as their goal the demise of the free market will have the graciousness of the cannibal chieftain who said, "My wife made a great soup, but I shall miss her just the same."

The evidence that American businessmen will play an important part in any further socialization of society is confirmed when one hears the chairman of one of the largest oil companies in the country, to the applause of his audience of businessmen, propose an increase in the taxes on petroleum, to "achieve effective energy conservation in the United States."

Here are a couple of items involving government intervention, one in

the indirect allocation of credit, the other in price controls. See if you can detect any potential areas for abuse.

### **The Allocation of Credit**

Most of you have heard of the Small Business Investment Act and the government corporation it empowered. Under certain circumstances, one can borrow from the Small Business Administration funds the private sector is not willing to lend. Now we have as a further extension the so-called Minority Small Business Investment Company. If one has, as defined, a minority member of management and with a minimum of \$500,000 in equity, the SBA will buy an equal amount of preferred stock from the company, and then lend in addition an amount equal to three times the company's private capital stock. The leverage is 6 times over. Interest rates a bit high for you? Don't worry, the loan is at 3 per cent below the cost of money to the U.S. Treasury. You may be the guarantor of other loans, for which you will presumably receive equity in the other company, apparently without limit. Tomorrow the world!

In another area entirely, we now have the Federal Energy Administration with its price controls, causing this interesting phenomenon. "Old oil" has a price ceiling of about \$5.80 a barrel, but if your well pro-

duces less than 10 barrels a day, you are allowed to receive the free market price, about \$14.30 for 40 gravity crude. The numbers of the so-called stripper wells (under 10 barrels a day) have soared since the imposition of these controls, for obvious reasons. Will anyone produce 30 barrels a day at \$5.80 a barrel when he can receive almost as much for 9½ barrels a day at \$14.30 a barrel and conserve his crude? Is it any wonder, when low production wells make up the largest percentage of total crude production in this country, that we are now importing over half of our liquid fossil fuel?

Well, what is there to do about it? After 20 years of searching for an answer to methodology, I can find no prescription better than that of Leonard Read: It's a full-time job bettering yourself and bettering your understanding of the freedom philosophy.

Perhaps we might take a lesson from the story of the American tenor making his debut at La Scala. After his first aria in *Pagliacci*, the crowd roared, "Encore! Encore!" A reprise and once more they exclaimed, "Encore! Encore!" After several more attempts to satisfy the audience the singer stepped to the front of the stage, raised his hand and said, "Ladies and gentlemen, I am indeed honored and flattered at your response, but

if we are to finish this opera before midnight you must allow me to proceed." Whereupon, a huge Italian near the front arose and, apparently speaking for the audience, said, "No! You will sing it again and again until you get it right!"

### **Sustained through Principle**

What I have tried to stress here is that freedom is an outgrowth of virtuous concepts and can only be sustained through principle. As government crowds out more and more of private activity, we can be sure that those who vie for political office—holding to no principle, and striving for power alone—will more closely resemble those congregations of thugs heading the grotesque totalitarian states of this century.

But it would be to fall into the Marxist environmental trap if we were to contend that man is permanently and irretrievably corrupted by Statism. The paradoxes are obvious. Out of one of the most tyrannical and terrifying environments the world has known has emerged that towering figure of Alexander Solzhenytsyn, an unknown Red Army officer just 30 years ago.

Think how remarkable are these words coming from Svetlana, Stalin's daughter. Born into that environment of mass murder, cynicism and rejection of the spirit,

emptiness and hopelessness, it came to her in an almost intuitive realization that the world of her youth was the antithesis of what she truly was and wanted to be. She writes: "The bad and the good, as taught me in my childhood, changed places. The heroics of war and revolution lost all meaning, and men I had been taught to consider as great crumbled in my eyes. The authority of brute force ceased to exist, even if it cloaked itself in the highest ideals. The best people now were the quiet, kind, sincere and truthful, the unnoticed and unknown, instead of the rock-hewn heroes of suppressions and victories. The lies and bigotry of political and party life became unbearable. Any secret, any underground activity and thoughts that had to be kept under lock and key were repulsive, any violence against human beings, animals, or life in any form, inadmissible.

"People filled with ambitions and envy, self-enamored posturers, cold cynics and snobs become far more terrifying than crude physical dangers, which for me had ceased to exist. I was no longer afraid of death, darkness, physical violence; but a man who lies, even with the best intentions and for the highest cause, frightens me so that I feel like taking to my heels."

Well, the freedom philosophy is in a phase of spectacular if not ex-

plosive growth, with such a proliferation of activities as the world has never seen before, with the goal of limiting government and the freeing of man's choice. I think I can safely say that never before in history when relative freedom has been threatened by totalitarian forces has there been such a massive philosophical response in defense of freedom.

And this phenomenon is the one reassuring aspect to this battle of ideas, for it gives us hope and reassurance that Adam Smith's influence in the 18th and particularly the 19th century can be duplicated in a much more profound way in the latter part of the 20th century.

### **Three Important Aspects of Ideas and Idealism**


Arthur Shenfield, at a Mont Pelerin Society meeting in St. Andrews, noted three phenomena characteristic of ideas and idealism.

- First, there is a time lag involved—when an idea reaches its apogee it is at its weakest but most observable point, and it is not until it is at its apogee that it can be overtaken by a contrary idea.
- Second, the shell of an idea can continue after the kernel has died. I might add, how can anyone—even those who have not rejected Statism in principle—continue to ignore the empirical evidence of

Socialism's destruction of moral values, its promotion of war and genocide, its destruction of material goods and economies from the Soviet Union to the South Bronx?

- Third, he pointed out the inexhaustible capacity of man to hold inconsistent ideas. Again, it is imperative that those who look favorably on freedom be consistent and hold to principles, for this is the sharpest weapon to use against those who would harbor collectivist notions.

There is the story of the deaf old Duke of Cambridge, Queen Mary's grandfather. Every Sunday morning he sat in the first pew in Kew Church, and commented all too audibly throughout the service. One day when the curate prayed for rain, the Duke was heard by the whole congregation to observe, "Amen—but you won't get any rain till the wind changes."

Well, the wind is changing, and freedom is on its way. But it will take men of principle to keep it coming. 

### The Seductive Lure of Socialism

CAN THE LAW—which necessarily requires the use of force—rationally be used for anything except protecting the rights of everyone? I defy anyone to extend it beyond this purpose without perverting it and, consequently, turning might against right. . . .

Here I encounter the most popular fallacy of our times. It is not considered sufficient that the law should be just; it must be philanthropic. Nor is it sufficient that the law should guarantee to every citizen the free and inoffensive use of his faculties for physical, intellectual, and moral self-improvement. Instead, it is demanded that the law should directly extend welfare, education, and morality throughout the nation.

This is the seductive lure of socialism. And I repeat again: These two uses of the law are in direct contradiction to each other. We must choose between them. A citizen cannot at the same time be free and not free.

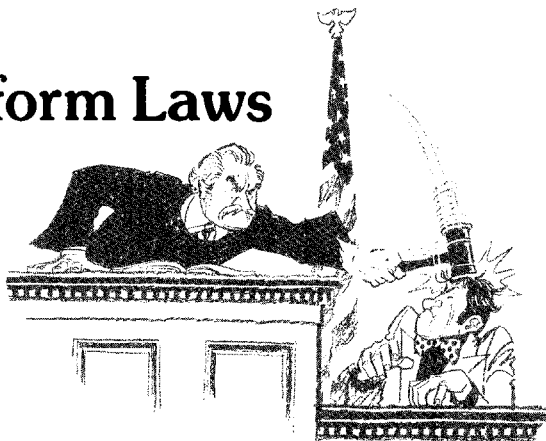
FREDERIC BASTIAT, *The Law*

IDEAS ON



LIBERTY

# Victims of Reform Laws



E.C. Pasour, Jr.

TRAVEL would be smooth if roads could be paved with good intentions. Unfortunately, good intentions do not assure that an action will achieve its stated purpose. Indeed, there is ample evidence consistent with Mises' observation that intervention leads to "a state of affairs which—from the point of view of their authors' and advocates' valuations—is less desirable than the previous state of affairs which they were designed to alter" (*Human Action*, p. 858).

Government intervention creates victims in at least two ways. First, laws against selected economic activities (e.g., price controls) restrict choice by preventing voluntary market transactions. These illegal

economic activities are victimless crimes since such market transactions create no involuntary victims. A number of examples are discussed below. Second, one intervention frequently leads to another further restricting individual choice. The snowballing effect of intervention is explained below in the case of education and health care.

## Price Controls

First, consider price ceilings (or floors) established by law. In these cases, it is illegal to sell a product for an amount higher (or lower in case of price floor) than the stated price. Examples include wage and price controls, minimum wages, prohibition of ticket "scalping," and usury laws. In each case, a market transaction which would

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make both parties involved better off is prohibited by law.

Consider product price controls. When the price of gasoline in the U.S. was set below its equilibrium level in 1974 during the OPEC oil embargo, a shortage was predictably created. The shortage was handled through queue or line rationing. A more conventional method of rationing would have been to issue coupons to consumers to purchase a specified quantity of the product. Such coupons are typically not legally negotiable. If the buyer is willing to pay the seller more for the coupons than the seller feels they are worth to him, both parties clearly benefit. The exchange of such coupons is a good illustration of a victimless crime in that intervention creates victims where none would otherwise exist.

Similarly, it may be shown that minimum wage legislation, ticket "scalping" laws, and usury laws create real victims. In each case individuals willingly engage in market activities only if their own position is enhanced. Usury laws are sometimes defended on the basis that the borrower has inadequate information, but information is an economic good and it is not feasible for the consumer to obtain complete information about any market transaction. The consumer must weigh the anticipated costs and benefits of additional informa-

tion for any economic good or service.

### **Safety Legislation**

Consumer safety regulations also create victims. The Food and Drug Administration, Consumer Product Safety Commission, Occupational Safety and Health Administration and other agencies frequently restrict consumer choice, effectively prohibiting the individual from engaging in activities which have more risk but lower cost. The tradeoff between risk and cost varies from person-to-person. Individual A, for example, might well choose to operate a lower cost lawn mower which does not meet the safety standards of the Consumer Product Safety Commission. Similarly, he may choose to operate a compact car at lower cost knowing that the probability of serious injury is higher. Safety legislation arbitrarily selects the amount of safety for the individual and restricts choice by prohibiting the desired tradeoff between risk and cost.

### **Rationale for Legislation**

Why should an activity constitute a concern of the state if there are no victims other than the individuals directly involved? Two reasons are frequently cited. First, the regulators are alleged to have more information than the in-



dividual and to be better able to make decisions for him. Safety devices for autos provide a good example. Mandatory seatbelts, air bags, and the like, can only be justified if the regulators can better determine the appropriate level of risk for the individual than he himself can. In a society where individual freedom of choice is a paramount virtue, such legislation obviously cannot be rationalized on this basis.

Regulators have no way to determine and provide for the diversity of tastes among individuals. Thus, regulations almost always restrict the options facing the consumer. If the consumer doesn't have adequate information to make a well-informed choice, such information can be provided without the coercive restraints which accompany most safety legislation.

A second reason for intervention is that other people may, in fact, be indirectly affected through side effects (or "externalities"). A side effect may be defined as an effect on the welfare of others who are not directly involved in the activity in question. In reality, there are likely to be differences in the extent of side effects associated with particular acts. Drug use, for example, may affect members of society other than the user if the user's actions or appearance impose a financial hardship on or, in other ways,

decrease the welfare of other members of society.

In some cases such as auto brakes, the side effects associated with an individual's activity are obvious. Faulty brakes pose a hazard, not just to the driver involved, but to pedestrians and other motorists as well. The fact that there are side effects, however, doesn't necessarily mean that the motorist should be required to have his brakes checked. It may be cheaper to make the man with faulty brakes liable for damage done to other parties instead of requiring him to have good brakes.

In many of the economic examples cited, side effects are absent or negligible. In the case of price controls, ticket "scalping" and usury laws, for example, there are no important third party effects. The same is true for auto safety belts and most of the safety legislation which prohibits the individual from making the tradeoff between cost and risk. In these cases, government intervention cannot be rationalized on the basis of side effects.

Safety legislation in some cases may actually have a perverse effect. When the state assumes the responsibility for product safety and a product is given the government stamp of approval, the safety incentive of the producer and/or consumer is likely to be reduced.

### **Intervention—Why it Snowballs**

There may be a basis for legislation when side effects are important (e.g., as in the case of faulty auto brakes). What is not widely recognized, however, is the role played by government in *creating* side effects and, hence, in providing a justification for more government activity. For example, when a service is provided collectively rather than individually, the intervention is likely to lead to additional restrictions.

First, consider health care. As long as the individual is primarily responsible for his own welfare, he bears the cost of activities which are likely to increase the costs of health care. Such activities include smoking, intemperate use of food, skiing, mountain climbing, careless use of bath tubs, and so on. Under these conditions, the cost of accidents, sickness, and the like is borne by the individual and his participation in these activities imposes no cost on other individuals. Thus, harmful side effects affecting other people are negligible, and there is no case for government action to restrict the individual's hazardous activities.

The situation is much different when health care is socialized and the individual no longer bears the burden of his own health care. In this case, any activity which increases the cost of an individual's

health care affects the welfare and cost of other people since the costs of health care are borne collectively. Where health care is socialized, anything an individual does which increases the cost of his own health care is of concern to others. There are side effects associated with risky activities which increase the cost of health care to other people. Thus, these side effects or spillovers can be attributed to the fact that health care is collectively rather than individually provided. In this way, government financing provides the rationale for more government intervention.

What are the implications? A system of national health insurance will predictably lead to restrictions against individual activities of a risky nature. Participation in such activities will increase the cost of health care. Consequently, some economic activities which are legal under a system of private health care are likely to become illegal when health care is provided for collectively. For example, the "hazardous activities" mentioned above might be expected to become "social problems" when health care is publicly financed.

### **Problems of Compulsory Schooling**

Education is another area in which government financing creates a situation where additional

government activity is required to eliminate side effects. Privately financed education is compatible with a diversity of viewpoints and tastes. Parochial schools, for example, can inculcate the tenets of the sponsoring group. The group is homogeneous with respect to the doctrine which provides the focal point for the educational system. In such cases, textbook selection, choices of doctrines being taught, and so forth are simplified.

When education is publicly financed, the situation is drastically changed. A state system means that there is likely to be relatively little leeway allowed from school to school with respect to text-book selection, teaching methods, teaching approach, and the like. The state agency responsible must have a standard against which it can judge compliance. Consequently, there is a strong force toward uniformity and little latitude to cater to the interests of particular groups. A recent example is the controversy in Kanawha County, West Virginia where parents vainly objected on religious grounds to textbook material being used in public schools.

A publicly financed educational system faces an insurmountable problem in catering to a diversity of tastes relating to religious or doctrinal preferences. Separation of church and state means that

schools must not offer fare which is oriented toward any single group. The prayer which poses no problem in a parochial school serves the needs of some students and offends others in a public educational system in a pluralistic society. Virtually any religious or moral teaching will prove objectionable to some group or segment in the community. Here again, government financing provides the rationale for additional government control, reducing choices available to parents and students.

Numerous other examples can undoubtedly be cited where government financing creates side effects making a particular activity objectionable. That is, an activity which is victimless when supplied through the market, involves side effects when publicly financed. Ironically, victims of government intervention in such cases typically blame the wrong culprit. Individuals blame other individuals for having different tastes. The real culprit is the method of financing the service. When a service is supplied through the market, a wide range of tastes can be accommodated without imposing costs on others.

### Conclusions

If wishes were horses, we would all be wise to own stock in a harness factory. There is ample evidence, however, that economic regulation

does not achieve the results desired by its advocates. Government intervention, regardless of the reformer's intention, tends to create victims where none would otherwise exist. Laws preventing voluntary market transactions create victims by restricting individual choice. There is no legitimate basis for laws preventing such transactions, as in the case of price controls and much of the safety legislation, where there are no

important side effects affecting other parties.

The way in which intervention paves the way for more intervention, leading to further restrictions on individual choice, is not widely recognized. A recognition of the impact of these effects should be taken into account when the relative merits of the market and the state are being compared as alternative ways of providing any economic good or service. ☉

### Legislated Security Is Bondage

LOOK over all the world where you will, and see those governments where the features of compulsory benevolence have been established, and you will find the initiative taken from the hearts of the people.

Social insurance cannot even undertake to remove or prevent poverty. It is not fundamental and does not get at the causes of social injustice.

IDEAS ON



LIBERTY

The first step in establishing compulsory social insurance is to divide people into groups, those eligible for benefits and those considered capable of caring for themselves. The division is based upon earning capacity. This governmental regulation must tend to fix the citizens of the country into classes, and a long-established insurance system would tend to make those classes rigid.

There is in the minds of many an absence of understanding of the fundamental essentials of freedom. They talk freedom, and yet would have bound upon their wrists the gyves that would tie them to everlasting bondage.

For a mess of pottage, under the pretense of compulsory social insurance, let us not voluntarily surrender the fundamental principles of liberty and freedom.

SAMUEL GOMPERS (1886-1924)

*Excerpts from an address, December 5, 1916*



# Inflation

# and Interest Rates

Henry Hazlitt

ONE of the persistent causes of inflation is the perennial demand for cheap money. The chronic complaint of businessmen, and still more of politicians, is that interest rates are too high. The popular complaint is directed especially against the rate for home mortgages.

To cite an example at random, President Lyndon B. Johnson, in his State of the Union message in January, 1967, "pledged" the American people to "do everything in the President's power to lower interest rates and to ease money."

Whether he knew it or not, this was a pledge to resume and increase inflation.

But it is not merely by Presidential pledges that governments seek to hold down interest rates arbitrarily. Since the passage of the Federal Reserve Act in 1913, government efforts and power to hold down interest rates have been built into our monetary system.

The Federal Reserve authorities have three specific powers to enable them to do this. The first is the power to set the discount rate—the rate at which the member banks can borrow from the Reserve Banks. The second is the power to change the reserve requirements of the member banks. The third is the power to purchase government securities in the open market.

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### Change the Discount Rate

The first of these powers helps to set short-term interest rates directly. When member banks can freely borrow money from their Federal Reserve Bank at, say, 6 per cent, this fixes a ceiling on the rate they have to pay. They can afford to relend at any rate above that. In classical central bank theory, the discount rate was treated as a penalty rate. In the nineteenth century the Bank of England, for example, set its discount rate slightly *above* the rate at which the private banks lent to their own customers with highest credit standing. If a private bank then got into difficulties, and had to borrow from the Bank of England, and put up some of the loans due to it as security, it lost by the operation. The discount rate was not supposed to enable a private bank to relend its borrowings from the Bank of England at a profit. But in this inflationary age, that rule has long been forgotten. Most countries today fix their central bank discount rate (sometimes called the rediscount rate) at a level *below* what the private banks charge even their highest-rated customers.

But there are limitations to prevent a low official discount rate from being too greatly abused as an incentive to inflation. Not only are severe "eligibility" restrictions often put on the kind and term of

commercial paper that the member banks are allowed to rediscount, but the would-be member bank borrower may be subjected to embarrassing questioning, and the "discount window" may in effect be kept all but closed. In October 1976, for example, when the Federal Reserve Banks were holding \$100,374 million U.S. government securities, and extending total credits of \$107,312 million, only \$67 million of this consisted of loans to member banks.

### Change Reserve Requirements

The second power of the Federal Reserve authorities—the power to lower the reserve requirements of the member banks—could be used to allow the member banks to expand their loans; but in practice the reserve requirement is seldom changed. The required reserve against net demand deposits for "central-reserve-city" member banks, for example, stood unchanged at 13 per cent from 1917 to 1935. Since Jan. 1, 1963 it has stood at about 16½ per cent. There are quicker and more flexible ways to obtain a desired expansion of the money supply.

The chief way is by the power of the Federal Reserve authorities to purchase government securities in the open market. This power is employed almost daily. It is easy to see how it expands the supply of

money and credit. A Reserve Bank, say, buys \$1 billion of U.S. Government securities in the open market. It buys them, say, from private holders, and pays for them with a cashier's check. The sellers deposit their checks in some commercial bank, dominantly in a member bank. The member banks present their checks to the Reserve Bank for payment. As a result, their "reserve balances" with the Reserve Bank increase \$1 billion.

Let us say that the member banks are already "lent up"—that is, that they have already expanded their loans as much as they are allowed to do against their legally required minimum reserves. They now have \$1 billion of "excess reserves;" and they are entitled to lend out at least three or four times this amount—the exact multiple depending on how much the borrowers draw out in actual cash. So Reserve Bank purchases of every \$1 billion of government securities can lead to an expansion of the money and credit supply by some \$3 billion or \$4 billion.

### **Open Market Operations**

The power of the Federal Reserve System to expand the money supply in this fashion is used daily and heavily. In 1975 the Reserve Banks made gross purchases of \$20,892 million U.S. Government securities (mostly—\$11,562 million—of

Treasury bills with maturities of twelve months or less) and gross sales of \$5,599 million. In recent years the System's total holdings of government securities have tended constantly to increase—from \$57,500 million in December 1969, for instance, to \$100,374 million in October 1976.

So the government can bring about lower interest rates, in the first instance, by two methods. It can do it directly by reducing the discount rate of the central bank, and allowing private banks to borrow freely at that rate. Or it can do it indirectly by "increasing the supply of loanable funds"—that is, by inflating. It can inflate in this way through getting the central bank to purchase its bonds, or it can "monetize" its debt directly—that is, it can just print the money to pay for what it buys. The latter process, however, is too naked, too raw, too clearly seen through, and no respectable government today resorts to it. Modern governments prefer the more complicated method I have described above, because the majority of voters are only dimly aware of precisely what is being done.

If we directly lower the interest rate, in sum, we encourage more borrowing, and therefore encourage an increase in the money-and-credit supply. If we begin by increasing the money-and-credit supply, we

thereby lower the interest rate. So one begets the other: lower interest rates bring about inflation, and inflation brings about lower interest rates.

### Effects in the Long Run

But there is a catch, which the inflationists and easy money advocates do not foresee. The second effect is at best temporary. Inflation brings about lower interest rates only in the short run. In the longer run inflation brings about higher interest rates than ever. For inflation, by raising prices, lowers the purchasing power of the monetary unit. Lenders begin to catch on to this. They want a real return, say, of 5 per cent a year. But in the preceding year prices rose an average of 6 per cent. If prices continue to rise at that rate, it will take a nominal return of something like 11 per cent to bring a real return of 5 per cent. So lenders begin to demand a "price premium" sufficient to insure them of something close to their normal real return.

The current nominal interest rate demanded and offered is therefore determined by the composite expectations of lenders and borrowers concerning the future rate of inflation. These expectations, in turn, are largely influenced by the past and present rate of inflation. Experience shows that these expectations, in the early stages of infla-

tion, tend to lag greatly behind what the future rate actually turns out to be.

For a long time officialdom, in particular, tries to ignore the situation completely. Thus in the raging German hyperinflation of 1919 to the end of 1923, the Reichsbank kept its official rate unchanged at 5 per cent until June 22, 1922, and even then began raising it only 1 percentage point a month till practically the end of the year. In 1923 it began to pay more attention to reality. It was charging 90 per cent in September of that year and even 900 per cent after that. But it never did catch up with realities. At the beginning of November 1923 the *market* rate for "call money" rose as high as 30 per cent per day—or more than 10,000 per cent on an annual basis.

### Discount Rate Manipulation

I have earlier pointed out that the classical (or at least the late nineteenth-century) British theory and practice of the discount rate placed it *above* the rate that the private banks were charging their own best customers for loans. The rediscount privilege was ostensibly granted to the private banks only for emergency use. It would be restricted to such use, it was assumed, if the banks paid a penalty rate for what they were forced to borrow. But when our own Federal



Reserve Banks began to operate in 1914, they soon began to set the discount rate below the market rate under the influence of political pressure and an easy-money ideology. The rate of the New York Federal Reserve Bank was set at 6 per cent in 1914, but was down to 4 per cent by 1917. In the depression, from 1933 to 1955, it was held under 2 per cent, falling to the incredibly low rate of 1 per cent between 1937 and 1946. Even in August 1958, though prices were rising in that year and the purchasing power of the dollar had already fallen to only about 48 cents compared with 1939, the discount rate was set at only 1¾ per cent.

Other leading central banks throughout the world followed much the same easy-money policies. The discount rate almost everywhere became a national show-window rate; it bore little relation to the high market rates that the majority of businessmen were actually obliged to pay.

But the central banks have lately been forced to pay some attention to these realities. We get an instructive table if we put together two separate tables in the December 1976 issue of *International Financial Statistics*, published by the International Monetary Fund. Our combined table compares, for thirteen industrial countries, the average annual yields (if held to

maturity) of central government bonds of at least 12 years' life, with the respective discount rates of the central banks of those countries. The figures are mainly those for October 1976.

	Long-Term Bond Yield	Discount Rate
United States	6.65	5.50
Canada	9.09	9.50
Japan	8.71	6.50
Belgium	9.11	9.00
Denmark	13.83	11.00
France	9.63	10.50
Germany	7.80	3.50
Italy	13.36	15.00
Netherlands	9.08	7.00
Norway	7.22	6.00
Sweden	9.15	8.00
Switzerland	4.60	2.00
United Kingdom	16.03	15.00

Thus it will be seen that though the short-term discount rate is below the long-term government bond yield in ten of these countries, there is in general a remarkable correspondence between the two rates in nearly all the countries. The very high nominal discount rates in Italy and in the United Kingdom reflect the high nominal long-term rates that prevail in those countries. And both are so high because the rates embody the "price premium" that lenders demand because they expect future inflation rates approximately equal to recent past inflation rates.

Where there has recently been hyperinflation, discount rates have been forced to reflect this, at least in part. In October 1976 the discount rate in Brazil was 28 per cent and in Colombia 20 per cent. In Chile the discount rate rose from 15 per cent in 1971 to 20 per cent in 1972 and 50 per cent in 1973. In the first quarter of 1974 it was raised to 75 per cent—after which it ceased to be reported.

### Interest Rate Lags

A review of past inflation records reveals that though interest rates eventually rise to reflect expectations of future price rises, they tend for an astonishingly long time to lag behind the rate that would have been sufficient to protect the lender and give him a customary real yield. This lag persists because it seems to take a long period for lenders to abandon their habit of thinking only of the nominal yield from their investments. To protect themselves they must consider, instead, the real yield to them after allowing for inflation. They must adequately estimate the extent of future inflation during the life of their loan. As a result of failure to do this, they frequently find that they have accepted a negative real interest rate.

This was illustrated in an instructive article by Ernest J. Oppenheimer in *Barron's* of August 30, 1976. "Ever since the New Deal,"

he charged, "the Federal government has pursued a deliberate policy of manipulating interest rates in favor of borrowers, notably itself."

He presented a table covering the 36 years from 1940 to 1975 inclusive. This listed in four separate columns: (1) the actual yields in each year of three-month U.S. Treasury bills and of long-term government bonds; (2) the "annual inflation rate" (i.e. the price rise each year); (3) the "assumed normal yield" (i.e. the yield that would have been sufficient to compensate the holder if it were to offset the "inflation" rate and in addition give the holder a real yield of 2 per cent from his Treasury bills and 3 per cent from his bonds); (4) and finally a calculation of the "real" gain or loss to the investor in that year.

The table revealed that on this calculation the investor in U.S. Treasury bills lost money in all but six years, and the investor in long-term bonds lost money in all but three years of the thirty-six year period. The interest payments he received during the whole period were not even sufficient to offset what he lost by the inflation.

Summarizing what happened in the year 1975 alone, Dr. Oppenheimer wrote: "Altogether, in 1975 the Federal government paid \$31 billion interest on its \$577 billion total indebtedness. Just to cover

the inflation rate of 9.14 per cent [that year] would have required \$52.7 billion. Thus investors in government securities lost over \$21 billion on inflation in one year, not to mention any return on capital."

It is important to keep in mind, however, that these investor losses were not directly the result of government manipulation of interest rates. This manipulation caused the losses only in so far as it helped to cause the inflation. The buyers of all fixed-return securities, private as well as government, suffered similar real losses during the same thirty-six years. What the buyers paid for these securities was the market rate at the time, but the market rate (except in rare cases) proved insufficient to compensate them. The cure is not, as Dr. Oppenheimer seems at one point to suggest, that the government (or any other borrower) should offer to compensate the lender for any inflation-loss actually suffered. That would be ruinous to most borrowers. The cure—for this as well as a score of other evils—is simply to halt the inflation.

### High Rates Persist

After an inflation finally comes to an end, in fact, the high nominal interest rates eventually brought about by the inflation tend to continue; and then they give the lender far more than the customary real

yield. This was illustrated in Germany during and after the hyperinflation of 1920 to 1923. While interest rates never caught up with the rate of price increase until the very end, in April and May of 1924—five to six months after the inflation was over—monthly loans in Berlin rose to a level equivalent to 72 per cent a year.

The pure rate of interest is not a merely monetary phenomenon. It reflects what is called time-preference. It means the discount of future goods as against present goods. It helps to determine the proportions in which money is spent and saved; the times and proportions in which consumption goods are made and capital goods are made. It acts as a guide to which projects are likely to be profitable and which not. It helps to determine the entire allocation and structure of production.

### Production Distorted

Because inflation leads inevitably to distortions in the interest rate, because during it nobody knows what future prices, costs, or price-and-cost relations are likely to be, it inevitably distorts and unbalances the structure of production. It gives rise to multitudinous illusions. Because the nominal interest rate, though it rises, does not rise enough, funds are more heavily borrowed than before; uneconomic ven-

tures are encouraged; corporations making high nominal profits invest abnormal sums in expansion of plant. Many regard this, when it is happening, as a happy by-product of inflation. But when the inflation is over much of this investment is

found to have been misdirected—to have been malinvestment, sheer waste. And when the inflation is over, also, there is found to be—because of this previous misdirection of investment—a real and sometimes intense capital shortage.



### The Rate of Interest

THE ACTUAL RATE of interest at any point in time is a product of many forces. Economists do not agree on all of the specific relationships involved, and the serious student would do well to consult Hayek's *The Pure Theory of Capital* (1941) for an introduction to the complexities of the issues. Nevertheless, there are some things that we can say.

First, the rate of interest reflects the demand for money in relation to the supply of money. This is why inflationary policies or deflationary policies have an effect on the rate of interest: by changing the supply of money, its price is altered.

Second, the rate of interest reflects the time preferences of the lenders, since it establishes just how much compensation must be provided to induce savers to part with their funds for a period of time. This is the supply side of the equation. The demand side is the demand for capital investment. Entrepreneurs need the funds to begin the production process or to continue projects already begun; how much they will be willing to pay will depend upon their expectations for future profit. In an economy where the money supply is relatively constant, the rate of interest will be primarily a reflection of the demand for capital versus the time preferences of potential lenders.

Another factor is also present in the interest rate, the risk factor. There are no certain investments in this world of change. High risk ventures will generally command a higher rate of interest on the market, for obvious reasons.

Finally, there is the price premium paid in expectation of mass inflation, or a negative pressure on the interest rate in expectation of serious deflation. It is the inflationary price premium which we are witnessing in the United States at present.

GARY NORTH, "Repressed Depression"

IDEAS ON



LIBERTY



# World in the Grip of an Idea.

Clarence B. Carson

## 4. Russia: Old Regime and New Revolutionaries

THE SOVIET RULE over the Russian Empire has been one of, if not *the*, most oppressive and tyrannical in all of history. It reached its nadir of arbitrary oppression under the dictatorship of Joseph Stalin, but it has been throughout its sixty-year domination a tyranny. There has been no shortage of efforts to explain this, or to explain it away, as the case may be. One of the most common explanations is that the

Soviet government inherited an autocratic regime from Czarist Russia and continued it. Another explanation, one which goes even further afield, is that the dictatorship of the Soviet Union is out of some sort of mold of Oriental Despotism. Then, there are those explanations which focus on the personality of Stalin, largely ignoring the despotism of Lenin and of Stalin's successors. Thus, it is alleged that Stalin was paranoid and/or a megalomaniac. This focus on Stalin has been particularly popular since Stalin was debunked by Nikita Khrushchev in 1956.

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

The major shortcoming of these and other such explanations is that they do not come to grips with the problem. They leave us with the need for an explanation of what has supposedly been explained. Why, we need to know, would the Bolsheviks or Communists (as they came to be known) have continued the autocracy from a regime which they hated and were pledged to displace root and branch? (This is not to deny that there may have been some connections but rather to affirm the need for explaining these.) Why would European-oriented Communists have become Oriental despots? If Stalin was paranoid, how did it happen that he was able to come to power and rule for so long? Perhaps Stalin did have an inordinate love of power, but what enabled him to satisfy it? In short, why evade the issue?

### **Tyranny Fills the Void**

There is an obvious explanation for the tyranny of communism. It is in Marxist ideology. An explanation begins to emerge when the matter is approached in the following way. Marxism has no political theory. It has a theory about politics but no political theory. Many critics of Marxism have focused on its misconceptions about economics. But at least Marx had a conception of economics, a conception derived from classical

economics, however distorted it was in his formulation. By contrast, he abandoned political theory almost entirely.

The reason is not far to seek. No political theory was necessary because the state is unnecessary. Government, or the state, is an accident, in philosophical terms. It arose as an instrument for class rule. It is a figment, so to speak, of the class which controls the instruments of production and distribution of goods. Since, as Marx conceived the matter, this control always involved deep-seated and universal injustice, government, or the state, had been used to perpetuate the injustice and repress the dispossessed classes. Marx predicted that with the triumph of the proletariat the classless society would emerge and the state would wither away.

True, there would be an interval between the time of the initial triumph of the proletariat and the emergence of the classless society. During this interval, the proletariat, or the class-conscious arm of it, would take over the state apparatus and run it. This would be the period of the "dictatorship of the proletariat." But it would only be an interlude; the state would still be accidental and ephemeral; it would then wither and disappear. There was no need to trouble to devise political arrangements for

something which had no future. It would be like devising means for governing ghosts when all that would really be needed would be to exorcise them.

### **Government Misunderstood**

Marx had confused and, in effect, fused two distinct aspects of reality: government and economy. Out of his materialistic philosophy and under the deceptive lure of the potential perfection of economy as viewed from the angle of economic theory, he supposed the economic system to be essential and government to be accidental. Given a just economy, government, or the state, would have no reason for being. In the real world, as contrasted with Marx's abstract poetic world, both government and economy are essential. Economy is essential to provide us with sustenance; government is essential to maintain the peace. Nor does the economic system determine the government; on the contrary, the character of the government determines, to considerable extent, the economic system. (This is not to deny reciprocal relations between the two but to emphasize the primary role of government by virtue of its monopoly of the use of force.)

Be that as it may, the important point is that communism has no general theory (or tradition) of government. In Marxist theory,

government had been an accidental instrument of class rule; it will be only a temporary expedient for consolidating the position of the proletariat. There is no theory or tradition within it of what constitutes a legitimate government. There is no formalized requirement for the consent of the governed. There is no provision for the separation of powers, an independent judiciary, checks and balances, or any means for containing and restricting government. Indeed, since all conflict is supposed to disappear, and since all limitations presuppose conflict, Marxist theory cannot accommodate any of these ideas.

Marxism is a covert blueprint for unlimited, despotic, arbitrary, and tyrannical government. It is covert because the theory posits a potential harmony which nowhere exists and the absence of government when in fact government prevails everywhere. More, Marxists in power employ the full weight of political power in drastic efforts to transform human nature, power limited only by the imagination and lack of determination of those who wield it. If it were given a theory and tradition of government, it would no longer be Marxism. Marxism is committed to a vision of the future and an explanation of the past which does not accept the reality and permanency of government. Reality ignored does not, of course,

go away; instead, it grows luxuriously and smothers all else. This is precisely what has happened in all communist lands.

### Rule by Gangsters

In fact and in practice, communism is *rule by gangsters* who seek to give *legitimacy* to their governments and acts by *Marxism*. That they have been gangsters does not stem merely from the fact that they were outlaws and exiles before they seized power, though they were. Nor does it stem merely from the fact that they operate in a conspiratorial manner, though they do. It is more deeply a part of their mode of operations and reason for being than these things imply. They are gangsters, in the first place, because they are thieves. They take the property of others and use it for their own purposes. They are gangsters, in the second place, because they operate by force and violence on those under their sway. They are gangsters, finally, because their rule is not legitimate, and the very ideology by which they would give legitimacy to their rule makes them gangsters.

But why call them gangsters? Why not despots? Or dictators? Or usurpers? These latter terms are, of course, to some extent appropriate, but they do not adequately describe the phenomenon with which we are dealing. There are despots and

despots, dictators and dictators, usurpers and usurpers. They are relative terms. "Gangster," by contrast, is precise; it describes a possibility of a type of ruler for which the perversions implied by dictator, despot, and usurper do not prepare us.

Every communist regime appears capricious so long as we employ the usual terminology for the rulers. It is something to be accounted for by the peculiarities of a Stalin, or a Mao Tse-tung, or a Castro. But once they are conceived of as gangsters tied to Marxist ideology, any capriciousness becomes a secondary characteristic. There is a pattern to their behavior, a pattern that persists from Lenin to Stalin to Malenkov to Khrushchev to Brezhnev. It is a pattern of secrecy, terror, purges, rulers surrounded by henchmen, of expropriation (theft), of violence, and of fear. It is not that there are not variations from one set of rulers to another, nor that there are not peculiarities of individual rulers. Obviously, there are. It is rather that communist regimes must be explained by what persists, not by what changes from one to another. What persists is gangsterism tied to Marxism.

### The Problem Is Political

It is customary to write about communist regimes as if their main problem were economic. But their



economic problems follow from the abuse of political power. To grasp the basic problem of communist regimes, it is necessary, first, to imagine what the basic problem of gangsters would be if they were to gain control of the political apparatus. It should be obvious what that problem would be. It would be legitimacy.

If ordinary, non-ideological gangsters were to seize a government, the problem could probably be solved over a span of time. They would probably regularize procedures, as all governments tend to do. They would probably consolidate their regime by giving favors to influential individuals and groups. At some point, they would probably cease to be gangsters and become politicians, or something of the sort. Transformations similar to this have occurred many times when armies composed of little better than bandits have seized power over a people.

The problem for communist regimes to establish legitimacy, however, may well be insuperable. Marxism provides no handle to grasp with which to legitimize a regime. If it regularizes the government, it is on the way to making permanent what is supposed to be temporary. Marxism does not recognize the legitimacy of the motives of self-interest, the appeal to which would enable a regime to

consolidate its power. Communist rulers are committed to erasing all those conflicts which make politicians necessary rather than becoming politicians.

### **Reliance on Marxism**

A communist regime attempts to establish its legitimacy by its adherence to Marxism. The more gangster-like the rulers are the more fanatically they proclaim their Marxism. Indeed, theirs must be the only true, correct, and orthodox Marxism, else how can they justify the atrocities they commit? Marxism cannot legitimize their government, or any government, but it does legitimize, for them, their gangster-like rule. They may be completely cynical about the programs they advance, but they cannot tolerate the growth of any cynicism about the validity of Marxism, for if Marxism is invalid, they have no reason for being.

Gangsterism cannot, of course, be deduced from the verbiage of Marxism. Even the phrase, "dictatorship of the proletariat," does not presuppose the rule by gangsters. Gangsterism arises in the real world from the attempt to superimpose over it the visionary world of Marxism. In the real world, men are ordinarily devoted to the pursuit of their own interests as they conceive them. If they act in concert with others, in their ordinary

employments, it is to advance their own interests as over against those of others.

In reality, governments encounter not harmony but conflicts of interest. Communism does not propose machinery for resolving these conflicts as they continually arise; instead, it proposes to dissolve them. Given the perpetuity of the conflicts, communism must be imposed from above downward. It must be imposed by those who connive to do so against the will of the populace. The attempt to do this requires determination and the will to use whatever measures are necessary to enforce it, i.e., the mentality and habits of gangsters.

### **Inherent in the System**

Communist behavior does not, then, arise from the history and traditions of the lands over which its rule is imposed. On the contrary, it is implacably opposed to the history and traditions, and committed to their obliteration. It arises out of the inner necessities of the ideology. Nor is the communist conquest of power directly related to any oppression or tyranny which may have preceded it. Peoples seeking an outlet from tyranny would hardly turn to communism for that. This much needed to be got on the record before discussing the relation of the Czarist regime to the Bolshevik Revolution. It is often

alleged that it was the oppression of the Czarist regime that set the stage for communism and contributed to its character in Russia. Whatever the degree of oppression under the Czars, it would not have justified communism; nor could it, except in tangential ways, have informed communism.

In fact, it was the deterioration and dissolution of Czarist rule which provided the opportunity for the Bolsheviks to come to power.

The end of the rule of the Czars came swiftly and ignominiously in the last days of February and early March of 1917. (If we follow the Julian calendar which was then in use in Russia. If not, it was in the middle of March, 1917.) This is usually referred to as the February Revolution in Russian history. On February 20, say, Nicholas II was the unchallenged Czar of the Russian Empire (except such of it as had fallen into the hands of the Central Powers). On March 2 (Julian calendar), Nicholas abdicated, and the rule of the Czars was effectively ended.

### **The Fall of the Czar**

The events which signalled this sudden and swift dissolution could hardly have been predicted. For several days in late February there were massive demonstrations in the capitol, Petrograd (lately, St. Petersburg, and before many years

to be renamed Leningrad). Nicholas II had taken over the command of the armed forces and was away from the capitol. When he heard of the disturbances, he ordered them to be stopped. To effect his order, soldiers were called out to end the demonstrations. They fired on the crowd, and some people were killed. Following this, some of the soldiers declared that they would not again fire upon their own people. A detail mutinied against its officers, and an officer was killed. The soldiers joined the city people and, spurred on by the Petrograd Soviet and leaders of the Duma (a sort of elective legislature), took over the City of Petrograd. When the Czar attempted to return by train to Petrograd he was unable to do so and wound up in Pskov instead. There, pressured by representatives from a provisional government and most of his generals, he abdicated in favor of his brother, Michael. Michael refused to accept the throne, and the three-hundred-year reign of the House of Romanov was over.

What had happened was the dissolution of the authority of the Czar. With the dissolving of that authority went virtually all the political authority in the empire. It was this dissolution of authority—not repression, not oppression, not backwardness, not progress, not even, in the final analysis, the po-

tent solvents let loose by World War I—that set the stage for the Bolshevik Revolution later on in the year. There were would-be rulers aplenty, but mostly they had neither the determination nor the tradition to cement authority over an empire and conduct a major war simultaneously.

### **Many Diverse Interests**

In retrospect, how the czars ever maintained authority over the empire may be more in need of explaining than why the authority dissolved. At the beginning of World War I, Nicholas II ruled over a vast empire which extended from Finland and Poland in the west to the Bering Sea in the east. This extensive land mass constituted the largest country in Europe and in Asia. It was truly an empire, for it contained not only the Russians but also Ukrainians, Finns, Poles, Georgians, Yakuts, Buryats, Letts, Germans, and so on.

The Russian Orthodox Church provided the official religion but there were also, among the Christians, the Old Believers, Baptists, Roman Catholics, Lutherans, and assortment of other sects. In addition to Christians and Jews, there were Moslems and Buddhists. Among all the peoples, however, the Russians were the most numerous and the dominant ones as well, which is why it is rightfully referred

to as the Russian Empire. In a similar fashion the Russian Orthodox Church was the dominant religion.

For several centuries, too, Russia had been pulled East and West. The East toward which Russia was drawn was not the Orient but the East of the Orthodox Church, the cultural East of Constantinople and the Eastern Roman Empire of the Middle Ages. The West was, of course, Western Europe and its culture and ways. There were Westernizers, and had been since Peter the Great, who wished to see Russia imitate and adapt to the culture of Western Europe. There were Russifiers who pushed for the Russification of the Empire. And, there was pan-Slavism, a movement, of sorts, to unite all the Slavic people under Mother Russia. There was a considerable contingent of Germans who wielded much intellectual influence. How anyone could rule over this polyglot assemblage is difficult to understand, yet rule over it the czars had done.

### **Diminishing Powers**

The czars ruled the Empire by the hold they had over the Russian people, by conquest of the outlying provinces, by repression, by tradition, and by concessions. The great bulwarks of the regime historically had been the Orthodox Church, the

nobility, the bureaucracy and the landlords. The most repressive of czars in recent times had been Nicholas I (1825-55). The repression was abated by Alexander II (1855-81), under whom the serfs were freed, and the economic complexion began to change. Nicholas II (1894-1917) was almost certainly the least repressive of the czars of modern times, much less so than his father, Alexander III (1881-94). He granted major concessions in 1906 and further relaxed the repression thereafter.

In many ways, Nicholas II was an exemplary monarch. He loved the German princess, Alix of Hesse-Darmstadt, well, if not always wisely and was a beloved and devoted father to his four daughters and only son. He liked hunting especially, though he also appears to have enjoyed in general the trappings of royalty in the last halcyon days of royalty in the modern era. If he was not himself a man of great vision, he used two vigorous and far-seeing ministers, Sergei Witte and Piotr Stolypin, to good effect. Under the leadership of these men, Russia began to make considerable industrial progress, and Stolypin, before his assassination in 1911, did much to develop independent farming. (So heady was Stolypin's early success that some of the socialists began to despair of appealing effectively to the peasants.) The fact

that some 15 million troops could be mustered, with little complaint, for World War I appeared to indicate widespread loyalty and acceptance of the regime.

But Nicholas II was hoist by his own petard, indeed, hoist by changes which had been made in the power structure, some of which went back to the time of Peter the Great in the early eighteenth century. Nicholas II was a proud and unrepentant autocrat, proclaimed his autocracy, and appears to have been determined to preserve and pass on his powers undiminished to his frail and sickly son. This was the case, even though the Constitution of 1906 indicated that he was to share his powers with the elected Duma. In fact, he proceeded through Stolypin to alter the constituency of the Duma to suit himself and to adjourn it or dismiss it when its actions became inconvenient.

### **Weakening the Supports**

Autocracy, in and of itself, did not cost him his throne. What did was that in solidifying their autocracy the czars had cut away the independent and responsible supports to monarchy. The Orthodox Church was surely a most important potential bulwark of monarchy. Yet Peter the Great had abolished the Patriarchate by which the church might have been in-

dependently and responsibly ruled. Some great cities still had Metropolitans, but their authority over the church in general was minimal to non-existent. In effect, the church had only a political director over it, a director who could hardly command the religious allegiance that was wanting.

Following the abolition of serfdom, the nobility and landlords lost much of their power. In general, there was an increasing tendency throughout Russia to have local rule by committees. This not only violated the principle of monarchy but also of responsible government. The result was that when the authority of the czar was challenged, there were no responsible independent leaders to come forth to support it who carried the weight of traditional authority. Nicholas II's regime was isolated by its own autocracy. When challenged, the authority crumbled and dissolved.

Events in the years just prior to March, 1917 contributed much also to the dissolution of Nicholas II's authority. It is most difficult for an autocratic regime, indeed, any government, to survive military defeat. The more personal the power, the more dependent it is upon its effective exercise. Russia had been humiliatingly defeated by Japan in the war of 1904-05. Nor did matters improve in World War

I; the Russian armies suffered crushing losses in major battles with millions of casualties. These defeats undoubtedly contributed to the deterioration of support for the regime.

### **The Role of Rasputin**

On top of this, there was the bizarre affair of Grigori Rasputin. Rasputin was a gross, illiterate, and dissolute adventurer posing as a holy man who managed to worm his way into the confidence of Czarina Alexandra (as Alix was called after she married Nicholas II). His influence was gained because he was able to stop the bleeding, probably by hypnosis, of her only son, the Crown Prince Alexis. The boy suffered from hemophilia. The family lived in constant fear that the boy would bump or bruise himself so as to set off another bout with the affliction. It happened often enough, and the suffering was such that it was all the family could do to bear it. Physicians could do little but allow the affliction to run its course. Rasputin was able, on occasion, to attend the boy and reverse the course of the affliction. This earned for him the gratitude of the Czarina, gratitude which it pleased him to use to influence policy and appointments.

Rasputin was killed in 1916—stabbed, shot, and finally drowned, so vigorous was the life in him—

but the damage had already been done. The damage was done in this way. The Czarina exercised often decisive influence on the Czar's appointments in his last years. At a time when the regime needed strong and resolute ministers, and particularly prime ministers, ineffective and weak men occupied the posts. They were often the choice of Rasputin who may have had little more motive than rewarding the husbands of women with whom he was engaged in sexual dalliances. To be associated with such a man could hardly help the reputation of the Czarina either, for though they were ill-founded there were rumors of illicit relations between Rasputin and Alexandra. This was the more devastating because the Czarina was German by birth, and Russia was at war with Germany. There is no reason now to question the loyalty of the Czarina to the Czar or to Russia, but the tales of machinations at court were sufficient at the time to damage greatly the prestige of the royal family.

### **Intellectuals and Reform**

There was yet another element in the erosion of the authority of the czars. There is no way of measuring such things, but it may have been the most important. Certainly, it was the most important for what lay in store for the Russian Empire

in the future. It was the role of the intellectuals. Intellectuals have played an increasingly important role in the modern world, particularly in the spread of socialism.

Prior to the eighteenth century, most of what we now call intellectuals had church vocations of one sort or another. Following the Protestant Reformation, some of them were no longer under the strenuous discipline of a strong church and, at any rate, had the opportunity to follow and advocate their own particular views. With the spread of religious liberty, such activity by churchmen became common. But it has been with the decline of the power of churches in the last two centuries, coupled with the growth of secular education and a secular press, that intellectuals, many of them with a reformist bent, assumed such an important role.

The intellectuals owed their rise, too, to the spread of liberty and the much greater economic productivity which accompanied it. In the nineteenth century, they were most apt to subscribe to a liberalism in support of liberty. In Russia, however, such liberalism was mostly thwarted. The failure in 1825 of those of this inclination to wrest power from the hands of the czars turned them, according to some accounts, to more revolutionary inclinations. One writer describes the development this way:

In the early nineteenth century there was taking shape a group of men and women . . . which called itself and was called by others the Russian intelligentsia. . . . The Russian intelligentsia was bound together not by class origin or wealth or economic function but by commitment to certain ideas. . . . The group may be defined as the politically-oriented portion of the educated class--that portion which was preoccupied with ideas concerning what state and society were like and what they ought to be like, in Russia as well as the rest of the world. . . .

An air of dedication—which, carried to its logical extreme, would prompt Lenin to declare that he would not listen to Beethoven because it made him feel soft and weak—and a sense of risk pervaded the Russian intelligentsia. . . . The Russian intelligentsia developed a fervor and fanaticism of their own, but applied them to the advancement of a stock of ideas which were largely imported from England, France, and Germany.<sup>1</sup>

It was of such people that Fyodor Dostoevsky wrote in his novel, *The Possessed*.

It was such intellectuals who formed the backbone of the revolutionary parties which sprouted and spread in Russia in the late nineteenth century. These revolutionists did not believe in or hope for peaceful and gradual change in Russia; they believed that there would have to be a drastic transformation. As one scholar puts it:

Until the very end of the tsarist regime the spokesmen for the radical op-

position groups all belonged to the so-called intelligentsia. They were a motley assortment, consisting of "penitent nobles" and the sons of priests, merchants and peasants, who went among the people to preach their new doctrine, in which the main emphasis was placed on political and social revolution.<sup>2</sup>

### Revolutionary Parties

These revolutionary parties were generally small before 1917, but they exercised influence far beyond their numbers. There was the Socialist Revolutionary Party which contained a considerable corps of anarchists at the outset. It was anarchists, mainly, who were so active in the large number of assassinations and assassination attempts in the last decade or so of the nineteenth and the first decade of the twentieth century. A veritable reign of terror against government officials occurred in 1906-07. The Socialist Revolutionaries aimed their appeal toward the peasants as they settled down somewhat and were the prime movers for the nationalization and redistribution of the land.

There was the Russian Social Democratic Worker's Party, which was the Marxist party. It broke into two factions almost at the outset: the Mensheviks (minority) and the Bolsheviks (majority). The Bolshevik was the party of Lenin; it generally stood for an early pro-

letarian revolution as opposed to the generally held Menshevik view that such a revolution must await the full development of capitalism.


There was a Labor Group Party which sought to advance the political role of industrial workers. There were also the Constitutional Democrats (Kadets) who may have been more liberal (in the old sense) than left, but they did advance the idea of some sort of land distribution.

### United in Opposition

The revolutionary parties had one thing in common: their determined and continued opposition to the government of the czar. They propagandized, campaigned (when they could), and attempted in whatever ways they could to undermine it. The central authority must go. The nationalities must become self-governing as must the peasants and the industrial workers. This campaign bore fruit. When the authority of the Czar dissolved in early 1917, there was no recognized authority to take its place. There was a multitude of factions and parties, each with its extensive program, attempting to gain or influence power. When Nicolai Lenin arrived at the Finland Station in Petrograd in April, 1917, he found the situation ripening for him to grasp the power. The time was already nearly past when anyone



but the most resolute and iron-willed could control events in the Russian Empire. Every change that was made was greeted by the revolutionaries with clamor for ever more radical change. Radical democracy had penetrated the armed forces with the enlisted men controlling their officers, had penetrated the factories, and was spread throughout the provinces. Czar Nicholas II and his family were in custody; the old regime was by now not even a very lively

memory. The day of the new revolutionaries was at hand. 

Next: 5. *Russia: The Revolution Commences.*

### — FOOTNOTES —

<sup>1</sup>Donald W. Treadgold, *Twentieth Century Russia* (Chicago: Rand McNally, 1964, 2nd edition), pp. 33-34.

<sup>2</sup>Erwin Oberländer, "The Role of the Political Parties," in Oberländer, *et. al., Russia Enters the Twentieth Century* (New York: Schocken Books, 1971), p. 61.

## The Mirage of Material Equality

COMMUNISM added to the old idea of a revolutionary elite governing the people for their own good until the millennium, when the State is supposed to "wither away," the newer idea that private ownership of wealth is the root of all evil. Nationalize factories, mines, railways, stores, abolish private profit—so ran the theme song of Lenin, Trotsky, and their associates—and the sins and frailties of human nature will automatically disappear.

But this promise has proved a mirage, like the promises of the Jacobin agitators of the French Revolution. In order to make the wheels of their economic machine turn, the communist rulers of the Soviet Union were compelled to throw out of the window the early slogans of material equality with which they had appealed to the envy and class hatred of the politically illiterate Russian masses. Differentiation by status, differentiation by the pocketbook are the rule, not the exception, in Russia today.

WILLIAM HENRY CHAMBERLIN, "Ethics Is Personal"

IDEAS ON



LIBERTY

# A Critique of Mathematical Economics

$$\Pi_U = (1/M) \int_{\theta, p}^M (\theta - \lambda p)(p - r)d\theta - K$$

$$\Pi_{TP} = (1/M) \int_{\theta, F, p}^M [(\theta - \lambda p)(p - r) + F]d\theta - K$$

$$\Pi_{TP} = (1/M) \int_{\theta, p}^M (\theta - \lambda p)(p_H - r)d\theta$$

$$+ (1/M) \int_2^1 (\theta - \lambda p)(p_L - r)d\theta - K$$

IN THE PUBLIC DEBATE over current economic problems, a crucial issue involving the very foundations and procedures of economics has been obscured. What is the proper method for analyzing economic problems? Is it mathematical or theoretical? When Adam Smith first gave it a distinct place in social science, economics was a theoretical discipline. It was considered a deductive science using verbal logic, grounded on a few basic axioms. Today's orthodoxy is quite different. It holds that economic knowledge can be discovered and extended by means of mathematical expressions.

The mathematical treatment of economic principles was first undertaken by the French economist, mathematician, and philosopher, A.A. Cournot, in 1838. Elaborate numerical formulations of the conditions of "general equilibrium" have been worked out, notably by Leon Walras in 1874 and Vilfredo Pareto in 1909. Alfred Marshall was very influential in popularizing mathematical economics but nevertheless relegated his own mathematics and even diagrams mainly to footnotes and appendices, and preferred to present his conclusions in the verbal or "literary" form of exposition.

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The work of W. Stanley Jevons in the late 19th Century gave great impetus to the mathematical approach. In his preface to the second

“all economic writers must be mathematical so far as they are scientific at all. . . .”

*W. Stanley Jevons*

edition of *The Theory of Political Economy*, Jevons instructed other economists that “their science can only be satisfactorily treated on an explicitly mathematical basis.”<sup>1</sup> Jevons went even further in contending that “all economic writers must be mathematical so far as they are scientific at all, because they treat of economic quantities, and the relations of such quantities, and all quantities and relations of quantities come within the scope of mathematics.”<sup>2</sup>

### The Keynesian Revolution

With the Keynesian revolution of the 1930s, the transformation of economics was complete. Extensive use of graphs, equations and statistics replaced the verbal, deductive method. The majority of economists today are absorbed in the construction of economic “models,” along the lines of classical mechanics, and use a myriad of complex numerical relationships. Only a small minority of unorthodox economists, consisting mostly of “free market” advocates,

have raised serious objections to this methodology.

It is time the orthodox methodology be challenged vigorously. The mathematical approach is based on fallacious assumptions and intellectual arrogance. Though its impact has been enormous—that is not disputed here—it has done little more than make economics into a dull and confusing morass for the layman and a clever excuse for central planners to justify coercive government interference with the market.

John Maynard Keynes once wrote that “if we have all the facts before us, we shall have enough simultaneous equations to give us a determinate result.”<sup>3</sup> At first this description of the essence of mathematical economics appears most profound. But a second glance reveals that what Keynes is saying is, that if we already know the future we can predict it! If only a snake had arms it could do push-ups!

Ralph Waldo Emerson had a

“It gives an illusion of knowledge in place of the candid confession of ignorance, vagueness, or uncertainty which is the beginning of wisdom.”

*Henry Hazlitt*

more sober view of what constitutes human knowledge. He said that "knowledge is knowing that we cannot know." Humans are mortals and cannot know for sure what tomorrow holds. All the equations, all the data and all the impressive algebraic concoctions in the world cannot remove the uncertainty of the future.

### The Entrepreneurial Role

Non-mathematical economists have postulated for decades that the function of the entrepreneur is to anticipate changes in the marketplace. Once the entrepreneur has made a decision, he then exposes his wealth and income by arranging factors of production in such manner that he may satisfy future consumer demand. If he anticipates correctly, he will earn entrepreneurial profits; if his judgments are wrong he will incur losses. Any number of variable and unforeseen elements may arise to affect the outcome: changes in fashion and technology, government policy, labor union activities, competition, prices, and even the weather. None of these elements is entirely predictable; none can be accurately determined by past performance. Such is the nature of the entrepreneurial function and, indeed, of reality itself. Attempts to mathematically quantify these elements in advance or to attach

All the equations, all the data and all the impressive algebraic concoctions in the world cannot remove the uncertainty of the future.

numerical significance to the subjective judgments of the entrepreneurs themselves are pure folly. They are doomed to the failure which lies in gross simplicity and imprecision.

It is ironic that mathematical economics strives for the exactness of numbers and yet bogs down in static equations which necessarily cannot begin to account for all the relevant factors. Economist Henry Hazlitt tells us that if a mathematical equation is not precise, it is worse than worthless; it is a fraud:

It gives our results a merely spurious precision. It gives an illusion of knowledge in place of the candid confession of ignorance, vagueness, or uncertainty which is the beginning of wisdom.<sup>4</sup>

J.E. Cairnes, a contemporary of Jevons, concluded that economic truth could not be enhanced by mathematics. Answering Jevons, Cairnes declared that

Unless it can be shown either that mental feelings admit of being ex-

pressed in precise quantitative forms, or, on the other hand, that economic phenomena do not depend on mental feelings, I am unable to see how this conclusion can be avoided.<sup>5</sup>

### Historical Data

The "quantities" which mathematical economics claims to know can be little more than data of economic *history*. The equations which incorporate them are thus static and incapable of dynamic analysis. They are not directed to describing the ever-changing, volatile marketplace where entrepreneurs and speculators continually rearrange production in order to profit from price changes. In actuality, these equations attempt to depict "equilibrium," a static model—a purely hypothetical construction which can never be realized in a changing world. Moreover, these equations provide no information about the human action by means of which the hypothetical state of equilibrium has been reached.

A further weakness inherent in the mathematical approach is discussed by Henry Hazlitt in his great book, *The Failure of the "New Economics."* There Hazlitt shows that "a mathematical statement, to be scientifically useful, must, like a verbal statement, at least be verifiable, even when it is not verified."

If I say, for example, that John's love of Alice varies in an exact and determinable relationship with Mary's love of John, I ought to be able to prove that this is so. I do not prove my statement—in fact, I do not make it a whit more plausible or "scientific"—if I write, solemnly, let X equal Mary's love of John, and Y equal John's love of Alice, then  $Y=f(X)$ —and go on triumphantly from there.

Yet this is the kind of assertion constantly being made by mathematical economists, and especially by Keynes.<sup>6</sup>

Mathematical economists are fond of drawing hypothetical "demand curves" and deriving from them hypothetical "functional relationships" between demand and price. But Hazlitt reveals the truism that "out of a merely hypothetical equation or set of equations they can never pull anything better than a merely hypothetical conclusion."<sup>7</sup> Whether a hypothetical demand curve corresponds to any *real* "demand curve" is utterly impossible to determine. Supply and demand curves, then, are nothing more than "analogies, metaphors, and visual aids to thought," which should never be confused with realities.

### At a Point in Time

A graph showing "the intersection of supply and demand" at a certain point may be suitable as a visual aid but not as a tool for extending economic knowledge. At

best, it *hypothetically* illustrates a tiny segment of the market at one fleeting instant in time and has nothing to do with the ongoing changes in the market. If we have a snapshot of a dog jumping over a fence just as he clears the top rail, we do not assume that dogs live on top of fences. And the snapshot does not tell us the *path* the dog took to get to the fence or what he will be doing at 8:00 tomorrow morning.

A good modern example of the failure of assigning mathematical meaning to human experience in order to guide us in the future is the famous "Phillips Curve." Once a cornerstone in the thinking of government planners, the Phillips Curve is now a discredited statistical device employed by only the most diehard and naive mathematical economists. The "Curve" was supposed to show a "trade-off" relationship between inflation and unemployment: when inflation goes up, unemployment goes down, and vice versa. Along came the 1973-75 recession, with both prices and unemployment soaring, to send the mathematical economists back to their drawing boards.

The old "Quantity Theory of Money" was an early attempt to assert a fixed, constant relationship between the quantity of money and the prices of goods. The quantity

How a change in the supply of money will affect prices is determined by how acting, motivated human beings react.

theorists held that a change in the money supply would result in a proportional change in the prices of goods. Later economists showed that no such predictable relationship exists. Prices rise or fall neither in tandem with one another nor with the change in the money supply. How a change in the supply of money will affect prices is determined by how acting, motivated human beings react. In the real world of individual, subjective valuations, there are no constant relationships and consequently no measurement is possible.

### **But Man Reacts**

Mathematics is made for the physical sciences, not the science of human action. It is very useful in physics, for example, because there one deals with a certain regularity of motion by *unmotivated* particles of matter. These particles, economist Murray Rothbard tells us, "move according to certain precisely observable, exact, quantitative laws."<sup>8</sup> For instance, a brick dropped from atop a ten-story building will most assuredly fall to

the ground below. Why? Because it has no choice in the matter and no means of making a choice. A regular, immutable force governs the unmotivated brick: the law of gravity. Science can proceed, via equations and "laboratory" experimentation, to determine the brick's speed of descent with a precision so accurate that it can be duplicated with any number of bricks of the same weight dropped from the same height under the same conditions. Mathematical equations, then, are appropriate where there are constant quantitative relations among unmotivated variables.

In economics, the situation is entirely different. Here we are dealing with *human* ideas and *human* motivations leading to *human* action. Professor Rothbard writes:

Furthermore, since the data of human action are always changing, there are no precise, quantitative relationships in human history. In physics, the quantitative relationships, or laws, are constant; they are considered to be valid for any point in human history, past, present, or future. In the field of human action, there are no such quantitative constants.<sup>9</sup>

Politics as a branch of human action has fortunately escaped the mathematical jargon which plagues economics. Perhaps this is due to the resulting absurdity that would be readily apparent. Imagine some-

"since the data of human action are always changing, there are no precise, quantitative relationships in human history."

*Murray N. Rothbard*

one manufacturing a set of equations to predict the outcome of an election! About the most mathematics could say would be that  $X=f(Y)$  [ $X$  is a function of  $Y$ ] with  $X$  equaling the outcome of the election and  $Y$  equaling the voters.

### Not Subject to Equation

No equation could indicate the *path* by which a man was elected or rejected, no equation could describe what the voters thought of a candidate at any particular time, no equation could account for shifts in public opinion and no equation for a current election could tell us anything about how any future election may turn out. These are all features of individual human action and are not capable of quantification. Only the verbal, logical analysis of the political scientist is applicable. Why is it any different in the equally volatile, equally subjective field of economics?


No wonder economics is labeled "the dismal science," one hundred years after Thomas Carlyle coined

the phrase. Under the spell of mathematics, it has been reduced to cold, hard statistics. Acting man somehow has been left out of the picture, replaced by lifeless graphs and equations. Economics really deserves better. It is the science of human action and thus is a living thing. To live is to change, to be imperfect. To die is to become a statistic, to cease changing, to be perfectly dead.

### Doubly Unwelcome

The mathematical approach is thus frowned upon by believers in the market. The typical citizen—the non-economist—is likewise repelled by it but for a different reason: the confusing array of complicated equations is simply beyond his understanding. When economics is treated in this manner, the typical citizen prefers to “leave it to the experts” with their slide rules, computers, and crystal balls. These “experts” invariably are proponents of expanding government power by manipulating the private economy. Mathematical economics is well-suited to the central planner because its static, impersonal and collective analysis “says” to acting individuals: “Slow down! I want to get a handle on you.”

So it is that mathematics as a

methodology is incapable of making substantive contributions to economic knowledge. That task, today and always, belongs to deductive logic and verbal exposition. Economists must come to realize that their science is based on human action; that “aggregates” do not act, only *individuals* do. When that happens, we may be well on our way to solving many of our economic difficulties. 

### — FOOTNOTES —

<sup>1</sup>W. Stanley Jevons, *The Theory of Political Economy* (New York: Sentry Press, 1965), p. xiv.

<sup>2</sup>*Ibid.*, p. xxi.

<sup>3</sup>J.M. Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace & World, Inc., 1936), p. 299.

<sup>4</sup>Henry Hazlitt, *The Failure of the “New Economics”* (Princeton, New Jersey: D. Van Nostrand Company, Inc., 1959), p. 99.

<sup>5</sup>J.E. Cairnes, *The Character and Logical Method of Political Economy* (2nd ed.; London: Macmillan & Co., 1888), pp. iv-v.

<sup>6</sup>Hazlitt, p. 101.

<sup>7</sup>*Ibid.*, p. 100.

<sup>8</sup>Murray Rothbard, *Man, Economy and State* (Los Angeles: Nash Publishing, 1970), p. 277.

<sup>9</sup>*Ibid.*, pp. 277-8.





## Problems of Great Minitude

WE have *big troubles*. And they're all small.

That is no contradiction in terms because what we're doing is taking minimal problems and making them grandiose through political action. Our problems are so small, we can't even see how small they are, buried as they are under polished conference tables, in paneled committee rooms, behind the office doors of hundreds of thousands of bureaucrats and smothered by billion dollar expenditures.

How small are they? Virtually every one is a *household* problem, no more complex than taking down the screens, putting up the storms or getting the youngsters dressed for school.

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Miss Leonard is a free-lance writer.

Can you imagine what your house would be like if run by a committee in the attic? There would be edicts on how many ounces of oatmeal to serve. You'd probably starve before you got a decision on whether or not you could buy food with preservatives. And, of course, all your tables would have to have rounded corners, padded for safety.

It is increasingly obvious that such a committee *is* in your attic, so to speak, and the way you're living *is* getting to be just that ridiculous. Although you don't see the committee itself, you see the results of its work in your newspaper and in your cupboard. And it's a committee of marauders! They rob you while you sleep. They have already dipped into your savings through inflation, siphoned gas out of your car

through energy controls, made your house expensive to comfortize through the regulation of utilities. And they take a cut out of every package of food in your pantry through added costs, subsidies, taxes and the like.

They work 24 hours a day to make life difficult for you. They pay people *not* to do your odd jobs and make all work done for you more expensive through law-enforced wage scales and unemployment compensations.

When you're sick, they keep life-saving medicines out of your reach and tell you it's for your own good! If you can't get a doctor to come to your house, they are the reason. Their "protection" racket keeps doctors from being as available as they would otherwise be, due to licensing, lack of competition and controlled medical training and practices.

They operate the only school in town and they teach your kids that you are selfish and *they* are nice. After all, you wouldn't provide your own children with education if not for *them*, through compulsory attendance.

They've found your safe, taken out the valuables and replaced them with IOUs. These IOUs used to say they would pay you back. They don't say that any more. Now your dollars are just paper, unbacked by value of any kind.

And these fellows don't like you a bit. They think you are unkind and uncharitable, so they keep taking your things and giving them to others who are willing to accept them. They have the keys to all the homes in the neighborhood; and those who want your things keep sending them back for more.

### The Protection Racket

Who are "they?" They're the laws we have. They're the makers and enforcers of socialist governmental policies. They're the fellows you hired to protect you from the criminal activity of others. Protection used to be their responsibility. Now it's their racket. But their success depends on their invisibility, and people are beginning to see.

Look anywhere and you'll see it . . . little household problems overblown into community-wide, country-wide and world-wide problems and emergencies.

Garbage is an example. Trash disposal and sanitation were among the earliest "problems" taken over by government on the basis that private enterprise couldn't be trusted to dispose of it. And what do we have? Reeking garbage in the streets, unattended by \$18,000-a-year city garbage collectors who are on strike for more pay. Less frequent collections. More demands for garbage preparation by householders for the benefit of the

high-paid collectors. Open dumping and burning. Hideous trash heaps on the countryside. Buried garbage that is bulldozed up into noxious problems when land is developed. Streams polluted by sanitation plants. A deteriorating system that has grown not in efficiency, but in expense. A system virtually unimproved since Roman times when Caesar is said to have placed a sign on the city outskirts reading: "Carry your refuse farther or you will be fined."<sup>1</sup>

When the government handles garbage it is a weighty problem of some 145 million tons a year (1964 figure). To Elmer Bard, operating on the scale of 1, it was not a big problem at all. Mr. Bard wanted to dispose of garbage at his summer home. He developed a backyard chemical unit (The Bard-Matic Garbage Eliminator System) that reduces garbage to a compost that can be used for fertilizing his soil and improving its moisture retention.<sup>2</sup>

Numberless solutions would now be working to our advantage if government hadn't taken over "the problem" with its one, old-fashioned method. While industry has greatly improved waste

disposal through sink units and compactors, we still have garbage on the streets for pick-up, garbage cans to load and haul around . . . a centuries-old system in a 1970 society. All because this infinitesimal "mole-hill" of a disposal problem is handled as a mountain of waste by government.

### The Energy "Problem"

Or, consider the most magnitudinous "problem" of our day—energy—another area reserved for government control on the basis of its importance. Although the utilities are investor-owned and often present themselves as private industries because they pay taxes, they are government subsidiaries in that their rates and practices are controlled by government.

Energy, like garbage, is only a mammoth problem when considered on a mammoth scale—providing zillions of kilowatts from central sources rather than the relatively simple task of generating electricity for a household, building or tract of homes.

Just how ridiculous can we be? At the moment, the government, with \$290 million in solar energy programs within its \$8 billion Energy Research and Development Administration (in addition to HUD solar energy research at the cost of \$1200 per home and investigation of energy by the Office of

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<sup>1</sup>*Successful Management of New Products* by John T. Gerlach and Charles A. Wainwright (New York: Hastings House, 1968).

<sup>2</sup>*Ibid.*

Technology Assessment as well as who knows how many other agencies<sup>3</sup>) is considering several sunny areas for an experimental solar energy facility. The proposed \$100 million facility in Gila Bend, Arizona would use solar energy for steam and turbines to produce 10,000 kilowatts and supply part of the electricity used by 2500 homes.

Now, how many things can you find that are absurd in that whole experimental idea. *Besides* the enormous sums (\$10,000 per kilowatt compared to regular generating costs of \$130 per kilowatt in 1960 and \$386 per kilowatt in 1975). *Besides* the overlapping efforts. *Besides* the fact that government projects drain energy from private efforts that would make solar energy efficiently produced, widely available, abundant, low cost and a source of profit for investors instead of a means of impoverishing taxpayers.

There is, of course, the limited value of conducting research for the whole country in areas of unusually intense sun. But the funniest thing probably is that the sun is going to be used to produce steam and run

turbines. That's something like attaching an electric motor to a horse. The sun *is* energy. And it's all around us . . . everywhere! Only a bureaucracy would think of loading the sun's energy onto wires and carrying it across the countryside. Transporting the sun! And spilling it all over too!

### Solar Energy

Solar energy can *eliminate* the need for electrical transmission from centralized power stations. It can *eliminate* the losses and waste of energy in transmission. The sun's energy is directly convertible to electricity through solar cells. These cells are still prohibitively expensive, rather strangely so since their principal ingredient is sand, but this squandering of public wealth is not only an utter waste in itself but diverts resources (money is energy too!) from the development of less expensive cells.

The solar cell can make each house independent of utilities and government for the manufacture of power. No more power lines. No more utility bills. Of course, the government would miss revenues from utilities. Is that why it is trying to keep us in the past of centrally-produced power?

While technology continually moves us toward lower costs and greater independence, the government keeps pushing us backward

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<sup>3</sup>Nor should we omit the efforts of the Environmental Protection Agencies which often negate the energies of public and private agencies, the most recent example being in Seabrook, New Hampshire where an EPA reversal of approval for a nuclear power plant may result in an unusable \$2 billion facility.

with higher costs and greater reliance on its power.

The government justified its control of the energy supply by the importance of availability and the "need" to avoid duplicating wires and the like. Our cities wouldn't be so strung up with wires and hung up with shortages today if politicians hadn't centralized and controlled power.

Wherever there is a long-lasting or large-scale shortage, government has exercised its stifling control. It's axiomatic: A free market *automatically* supplies demand through the incentive of profit. Government *automatically* stifles industry when it directly or indirectly controls profit and cost levels. Government intervention is just that—an *interruption* of activity. It should be used to interrupt the disruptive but never the productive. Although it often uses the need for availability as an excuse to interfere, political interferences can only act to *limit* availability.

It is the same with the air waves. Availability is considered "limited," so government has to exercise its control. But voice and picture transmission has only been limited to the extent government has limited it. Television is transmitted by cables as well as air waves and produced through cassettes as well as through broadcast studios. Voice is not just

transmitted by radio stations but by short wave channels, "ham" relays, recordings and tapes. New uses of light and lasers suggest more new sources of electrical transmission. We're not "limited." We're *controlled*.

### **Government Housing: Chicanery and Waste**

Consider our housing "problem." Without government help, we provided more and better housing than any country in history has enjoyed. With the entrance of government subsidies into housing, we have seen deterioration in quality and escalation of costs, every dollar spent toward government standards being extracted from efficiency and innovation. But building codes and controls stultified housing and construction long before direct government intrusion ruined it with shoddiness, financial manipulation, political chicanery and waste.

Basically, through regulations, we have been building *the same house* over and over again. Codes establish blind, unthinking uniformity. It is incredible that with all the new materials and technology at our disposal we are still building houses as we built them forty, a hundred and two hundred years ago. It is especially disconcerting since we have had the benefit in our time of the ideas of a man many

consider the greatest architect in history.

Frank Lloyd Wright was building homes with recessed lighting and built-ins as long ago as 1895. He was working in areas of prefabrication in the first decade of the 1900s. He was developing steel construction and low cost housing and writing about "a fireproof house for \$5000" in the '30s. And it was also way back then that he introduced radiant floor heating. I appreciate that fact particularly because the apartment I live in was built about fifteen years ago under all the city, state and federal building codes. It has radiant heat too—in the ceiling. Since heat rises, the space between the ceiling and the roof is probably quite cozy. Even just under the ceiling it is quite nice, but I hardly ever lounge around up there.

### **Building Codes**

Codes have not protected us from nonsense, mistakes or low standards any more than licensing has. On the contrary, they tend to institutionalize low standards because the minimum becomes the norm.

For example, codes specify the number of outlets in every room. We wind up with the stipulated sufficiency. But would you mind having a room without outlets? I certainly wouldn't. They're a mess. And if builders weren't legally

forced to install specific numbers of outlets they'd be thinking more about other ways of providing for our electrical needs that would be greatly improved.

We don't need unsightly wires all around the floors. Would you miss those octopus outlets and extension cords? If it weren't for electrical codes which keep us so old-fashioned, by now we might have luminous walls giving off varying, dial-controllable intensities of both light and warmth. We could have light like sunshine coming from our interior walls. We could have daylight at night. We could use lighting in many different ways for varying effects. We could do away with cumbersome lamps. Our appliances could be turned on by touch—anywhere in the room—without outlets at all.

Because he built in new and better ways, Wright was constantly at odds with building codes officials; and who knows how many of his ideas didn't appear as a consequence. Then, at the age of 86, after 66 years of unparalleled accomplishment in architecture, he was advised by the State of Arizona to get a license or stop practicing. Such is the protection of State boards.

We have been so protected against creativity, innovation and advancement that our housing is hardly farther along than what our pioneers enjoyed. We've filled our

"cabins" with the benefits of modern industry, but the cabin itself remains pretty much the same old box because of government controls.

Wright brought a free spirit to American architecture and characterized it as "unfolding, rather than enfolding." But not until we rid ourselves of the binding uniformity of government codes and standards can it *begin* to unfold.

### Market Adjustments to Change

There is no way to stop change, but it can be politically arrested and diverted so that regress temporarily supplants progress. A natural, free market system accommodates change. "Plans" assume no change, but even planners change plans. And plans change hands. And no two planners plan alike. All plans are at odds with each other. There are no grand plans, only temporary ones. Plans change. Lands are rezoned. They go from agricultural to commercial. They go from state to private ownership and back again in trades. Privileges are granted or taken away as in the case of tree-cutting, grazing and other uses of public lands. But always, the change is according to the whims, bribes or favors of politicians. Zones and codes are made to be broken by other zoners, coders and political maneuvers. *Only* through a free market is change brought

about by efficiency, innovation and advances of benefit to all; because only in an open market do rewards go to the productive and inventive, not the political hacks, opportunists and politically expedient.

Consider our "problem" of conservation and environment. The free market is the greatest instrument for the conservation and effective utilization of resources ever devised, penalizing waste and rewarding efficiency. But we put "conservation" in the hands of government and the result is nonuse, waste, destruction and litter.

Seeing our forests sitting absurdly useless while our need and demand for wood increases at higher and higher prices is like sitting on your hands and starving while your garden is ripe for picking. While the government has abandoned millions of acres of forest to accidental fires and further wasted resources through "artificial burns," private companies like Weyerhaeuser have cultivated forestry and reforestation techniques. Weyerhaeuser is *creating* new, well-spaced forests of stronger, genetically superior trees . . . trees that freshen the air with new and healthier oxygenization . . . trees that nourish wildlife by providing food and shelter through an improved natural habitat . . . woodlands that provide recreation

before being harvested for industry and then are replanted, re-used and reharvested in a totally productive life cycle of benefit to people, animals and the forests themselves<sup>4</sup>

### Government Encroachment

We complain about the disappearance of animals while abandoning them to starvation, fires and obliteration in our government-sponsored wilderness areas. We attribute the extinction of our endangered species to the encroachments of civilization, but, on the contrary, it is the encroachment of government that keeps civilization from reaching and benefiting them. Starving coyotes are driven to attacking sheep and causing furors between sheep raisers and coyote lovers. "Open season" brings hunters in droves, killing even the baby deer.

Private development of wilderness preserves for sportsmen, photographers and vacationers would bring protection and care to the animals instead of leaving them to survival tests with neglected Nature's strangled overgrowths. As long as hunting is a sport there would undoubtedly be hunting preserves and resorts, but hunting could be better controlled, the

young protected. Fishing streams would be stocked and fresh, fish developed and increasing instead of becoming rare and extinct.

There would be places where people would go just to enjoy the companionship of tame, cared-for animals. Natural enemies of the forest would be naturally separated under the self-interest of private property protection.

Our government-operated zoos are also out of place in our time and should have become extinct with the development of transportation. With a free, uncontrolled market in transportation we could be visiting giraffes, elephants and zebras in their African homelands with greater ease than we drive to the city zoo on a Sunday. We could visit animals living freely in their natural areas without crating and carting them to cages no matter how deluxe and "natural" we make them to salve our consciences.

As it is, under our restrictive system of government control of people and animals, we now have many zoo denizens eating better and more regularly than some of the taxpayers who help pay for their many pounds of fresh meat each day.

### Depletion of the Sea

Our seas and streams are ravaged by our own fishermen and foreign foragers as a matter of public policy

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<sup>4</sup>See *Weyerhaeuser High Yield Forestry/Growing Trees for Your Future* printed by Weyerhaeuser Company, Tacoma, Washington 98401.



and government arrangement. As trawlers sweep our shores and fish become more scarce, tensions intensify and we come closer to such bitter skirmishes as The Cod War in the North Atlantic. Meanwhile there is the controversy over the dolphin dying by the thousands as our nets scoop up tuna, suggested controls only acting to leave more tuna and more dolphin deaths to foreign fishermen.

Actually, there is no more reason for foreign vessels to be fishing our waters than for Alpine herders to come over here and steal our sheep—or for Italian bread makers to come and snatch our wheat—or for French winemakers to come and take our grapes. Life produces everywhere if it isn't destroyed. It is destroyed everywhere through government disposition.

Through private ownership and farming of our continental waters, we could be raising tuna and other fish for market just as we raise other food and animals for eating. Through productive methods, we can leave the sea environment virtually undisturbed or even the beneficiary of increase for a change instead of victimized by rapaciousness. As we let private enterprise go to work supplying fish, with government serving only to protect private development of the oceans, other countries will learn from us to raise the fish they need—or we'll

ship ours in trade as our productivity increases.

### Freedom Is Civilization

Private development is a system of close overseeing while "government conservation" is a system of neglect. Freedom is civilization. Through its increase, freedom extends happiness to every living thing.

You can go on down the list yourself. Take every problem and dispute you read about in the papers. You'll find small problems turned into massive messes through enlargement of the difficulty by government regulation. Many are just household problems . . . like energy. Many are just personal problems . . . like drugs. Many are not problems at all . . . created and fictitious.

Consider our mass immunization to prevent an *epidemic* of a disease when there is *not a single case* of it anywhere in the country. They should have called it Piglet Flu since it's more imaginary than real. Mass treatment with "free" inoculations seems only to be a tremendously costly and wasteful dress rehearsal for the more permanent shenanigans of mass health care through a Federal health program.

Or consider the need for cultural advancement through tax-supported arts, theater and music.

It's a good demonstration of interventionists trying to create a problem *out of a solution*. Nothing has advanced the arts and broadened their availability more than private enterprise.

A television production is seen at once by more millions than the combined total of all people who witnessed live stage productions over the past 400 years.<sup>5</sup> Movies have displayed classic productions and performances all around the world. The greatest singers, operas and symphonic orchestras can be heard with technical perfection right in your home, inexpensively and as frequently as you like, via recordings as well as radio and television. Masterpieces of art formerly known and enjoyed by only a few are available to everyone through copies, prints and books with even the originals seen by millions.

The creative arts are practiced and enjoyed by more people than ever before through the availability of materials, instruction and improved technologies. And leisure time to pursue them is afforded by our incomparable productivity.

Through our communications and distribution channels, artists become famous faster—even *before* they die. Never before in history

has there been anything comparable to our vast *market* for talent of all kinds. Television, with its voracious appetite for entertainment, suffers only from a lack of talent, certainly not an underexposed overabundance of it. You have only to look at your set on any night to see what unlimited opportunity there is for improvement. In publishing, despite inflationary pressures by government, people are finding themselves in print who never would have been published in a society of less abundance.

Every field of art is the same: never before such unlimited opportunity! Even the perennial "struggling artists" eat better and live better during their developing pre-fame years than any who were supported by kings and wealthy art patrons because they have the benefits of competition through which they can support themselves even on part-time earnings, feeding and clothing themselves at the lowest possible cost.

Artists needed favors in medieval times. Who didn't! Today everyone has already been favored by the extended, extending and always more and more extendable benefits of the American way of life . . . the free economy.

How can such foolishness as government support of the arts even get a hearing? It probably must be attributed to the numbness

<sup>5</sup>From the television special: "The First Fifty Years."

of mind that sets in when "others" assume responsibilities and "others" are to foot the bill.

### Accomplishing the Impossible


Our problems are simply so small we can't see them, and besides, we've turned our eyes over to others. But they are no better than we are. Imagine someone paid to lift a fork to your mouth. It would be done much more clumsily and messily than if you did it yourself, but since you need to eat, the feeder could extort a lot of money from you for the service. The solution: *pick up the fork!*

My mother thinks one of the biggest problems in the world is folding fitted sheets. She thinks I'm a whiz at it. When she sees my car coming down the street she runs for the washer so the sheets will be ready for me to fold. One wallows in the admiration of even so humble an accomplishment, so I was folding away one day, thinking I might start a fitted-sheet-folding business ("I fold the sheets that give you fits.") when I looked up and saw my mother's lip curl in revulsion as she saw what I was doing. "Ugh! It's always so neat looking, I thought

you had it neat inside too!" But, of course, there's no way to make roundness square or to take stitched-in puckers out of shirred, stretch corners. The wrinkles are concealed, not eliminated. You can't change what is natural. You accommodate it.

Similarly, the highly polished wood of all bureaucrat's neat, flush doors are simply closed on problems that can't be solved. Meanwhile, outside, people think the impossible is being accomplished and problems that *can't* be solved politically are somehow, miraculously finding solutions!

Bureaus and laws are the rugs we're sweeping all our dirty problems under. The way to rid ourselves of problems is not to hide them. We should open every problem<sup>6</sup> to the light of the free market and then watch that problem disappear . . . easily, quickly, efficiently.

No problem is *too small* for the free market to solve. And small, solved problems can't grow into insoluble national crises. 

<sup>6</sup>The natural exception is the prevention of crime and protection of property, Constitutionally reserved as the only proper area for law-enforcement activity.

### IDEAS ON **Ralph Waldo Emerson**



LIBERTY

TRUST men and they will be true to you; treat them greatly and they will show greatness themselves.

# Home of the Brave

WE NEEDED a good bicentennial history—and *Home of the Brave: A Patriot's Guide to American History*, by John Alexander Carroll and Odie B. Faulk (Arlington House, \$12.95), is it.

What distinguishes this history of our country is its continental view. The authors are specialists in western history, and they have a most intense curiosity about every last phase of the settlement of the "lower forty-eight" states as the population center moved west. The Indian wars of the post-Civil War period bulk as large or larger in the Carroll-Faulk pages as some of our more familiar conflicts. In ten packed pages, complete with maps and portraits and admirably succinct biographies of Indian leaders

(Crazy Horse, Geronimo), we get a beautifully detailed account of how a third of our continental domain was won. The Spanish-American War, by contrast, only gets six pages.

This reverses what the standard histories have to say—and the question of values becomes one for legitimate argument. Which is more important, the projection of the U.S. on the world scene (the Spanish-American War put us in the Philippines, and dramatized the need for the Panama Canal), or the winning of the West that gave us, first, the cattleman's empire and the gold rushes, and, at a later date, an incredible development of our whole trans-Mississippi railroad grid?

The question is peculiarly perti-

nent now that we seem to be retreating from Asia and are talking seriously about surrendering the Panama Canal. As we recoil from "imperialism," the West that was wrested from Sioux and Comanche Indians is feeding the world (including Soviet "imperialism") and, insofar as the southwestern states are concerned, is responsible for the Sunbelt shift in our politics that has left the familiar East Coast "Establishment" reeling.

### **Winning the Southwest**

As westerners, Carroll and Faulk reject the view that the Mexican War, which resulted in the cession of California, New Mexico, Arizona, Utah and part of Texas to the U.S., was a shameful episode in our history. The Spaniards never had a firm grip on this immense expanse of territory, which remained Indian country outside the towns. Texas itself numbered less than 3,500 settlers (other than Indian) at the time of Mexico's secession from Spain. Americans were welcomed to the region around San Antonio by Governor Antonio Maria Martinez, and by 1830 they were far in the majority in what was soon to become the Lone Star State.

When Santa Anna overthrew the Mexican constitution of 1824, which provided for a federal republic, Texas was one of seven Mexican states to resist the usurpation. It

had as much right to revolt against a dictator as any other component of what had been the Mexican republic. And the Texas majority, largely from Tennessee and the Louisiana Territory, had a right to set up its own government, which it did under Sam Houston after routing Santa Anna in a battle that lasted only eighteen minutes. The Mexican War that came after Texas' incorporation in the U.S. grew out of legitimate claims to restoration of property to U.S. citizens that had been destroyed in Mexico. It was not, as has been often said, a war to expand U.S. slaveholding territory. Carroll and Faulk point out that New England's congressmen voted steadfastly for the war, while John C. Calhoun of South Carolina voted against it. As for California, if we hadn't acquired it, its tenuous ties to Mexico City would have been ruptured by the British or the Russians, who coveted it to round out their Pacific Coast empires.

### **Warren G. Harding**

There are many surprising judgments in this "patriot's" bicentennial history. One of them is that Warren G. Harding was in many ways an effective President. He had an extremely strong cabinet. Charles Evans Hughes, as Secretary of State, forced some naval agreements that may have delayed

war in the Orient for ten years and in the West for fifteen. Herbert Hoover, as Secretary of Commerce, and Andrew Mellon, as Secretary of the Treasury, were certainly not weaklings. Harding made praiseworthy conservative appointments to the Supreme Court, and elevated ex-President William Howard Taft to Chief Justice. The Ohio gang presumably did him in behind his back, though we'll never know the truth about this, inasmuch as Harding's widow destroyed his personal correspondence.

Some scandals provoke vindictive blood feuds (Watergate, which roused the "Eastern Establishment" against Nixon, will probably go down in history as one of these). But other participants in scandalous doings get off easily. John Brown was found guilty of conspiracy, murder and treason for seizing the arsenal at Harper's Ferry, Virginia, in a plot to arm the slaves. He was sentenced to the gallows. But the clergymen, professional reformers and businessmen who provided Brown with the money and weapons to carry out his treasonous raid got off scot free. A Senate investigating committee drew back from probing too deeply into Dr. Thomas Wentworth Higginson's and other respectable New Englanders' connection with Brown's demented raid, although, as Carroll and Faulk say, grand

jury proceedings would have been justified by the documentary evidence. "Times definitely were extraordinary," so Carroll and Faulk sum it up, "when . . . Emerson and Henry David Thoreau could proclaim a murderous monomaniac like John Brown 'an angel of light' and made him a martyr." But when church organizations provide money that leads to guerrilla killings in South Africa, the "Brown syndrome" seems a little less extraordinary.

### A Hopeful Note

The Carroll-Faulk history ends on a hopeful note. There were gross excesses, the authors say, during the Vietnam War among the radical-chic and the youth culture. But, to continue with some final quotes, "as the United States approached the year of the Bicentennial, there was a growing mood of conservatism, a shift from the extremism of the Kennedy-Johnson years . . . public opinion had rejected the youth counterculture . . . also immutable, hopefully, is the basic good sense of the American people and their willingness to work to achieve the goals of a free society . . . present and future Americans can afford to do no less than their ancestors."

Altogether, the Carroll-Faulk history is the best to have come along since the late Garet Garrett's *The*

*American Story*. One hopes that it will have many editions. If it does, a good proofreader might be called in to correct a few annoying errors, such as the one that sets the Lindbergh transatlantic flight in June of 1927 instead of May, or the one that credits the invention of the cotton gin to "Ely," not Eli, Whitney. It is nitpicking to mention such things, but they might as well be cleared up.

► AN OVERGOVERNED SOCIETY by W. Allen Wallis. Free Press, 301 pages. \$10.00.

*Reviewed by William H. Peterson*

HOW MUCH GOVERNMENT is the right amount of government?

For the past third of a century, W. Allen Wallis, chancellor of the University of Rochester, distinguished "Chicago School" economist, statistician and member of several Presidential commissions, has probed this question.

His collection of essays from 1942 to 1976 reveals an agile, far-reaching and remarkably consistent mind. It is a mind not unlike that of Nobel laureate in economics F.A. Hayek, who also has seen service at the University of Chicago and explored the nature of legislation and the state.

Applying Thoreau's "that gov-

ernment is best which governs least" to American experience, Wallis finds decades of government intervention into our social and economic life have mostly come to naught and even less than naught. Costs exceed benefits. Ours is "an overgoverned society."

Proof, sadly, abounds. Wallis points out government now swallows up more than a third of the gross national product and destroys a lot of potential job-creating capital formation in the bargain. Moreover, he demonstrates taxes distort resource allocation and reduce economic efficiency. Progressive taxes diminish personal incentive. Profits are doubly punished, first as corporate income and again as dividends. Various other costs of tax compliance and legal avoidance dissipate still more economic potential.

In another essay, Wallis notes how government has fashioned the so-called energy crisis. It has prevented or impeded drilling offshore, it has impeded or prevented the construction of nuclear power plants, it has sharply reduced the mining of coal, it has regulated natural gas prices so as to retard exploration and encourage wasteful use, it has delayed construction of the Alaska pipeline by five years.

Again, he sees how Congress and the Food and Drug Administration have changed the U.S. from a leader

to a laggard in developing new medicines. Citing work by pharmacologist William Wardell of the University of Rochester medical school, he says the U.S. was at least the 30th country to approve the anticancer drug adriamycin, the 41st country to approve the antimania drug lithium carbonate, the 51st country to approve the antituberculous drug rifampin. These delays have led to untold suffering and even death.

In addition, government contributed to a faltering economy, to bigger swings in the business cycle. Wallis blames Congress and the Federal Reserve. Congress has forged giant inflationary deficits. The Fed has allowed the money supply to grow erratically. And lately at a faster pace: money stock rose an average of 4 per cent a year from 1962 to 1966, 6 per cent a year from 1966 to 1971 and 7 per cent a year from 1971 to mid-1974. In the second half of 1974 money supply

growth ground to a halt; the great recession of 1974-75 was on and its after-shocks are still felt.

So how much government is the right amount of government?

Appropriately in this bicentennial era, Wallis opts for the original Constitutional design of limited government and individual freedom, of checks and balances, of the rule of law and not the rule of men. (A tax audit, observes the author, "involves sitting down across the table from a man—not a law.")

What can we do about our "over-governed society"? First, says W. Allen Wallis, perceive public opinion as the root of the problem, not ignorant or malevolent legislators. Then educate and communicate. Finally—and this may be his most challenging prescription—"discriminate in financial support between organizations, institutions, and individuals that are part of the problem and those that have a potential for doing something about it."

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