

the Freeman

VOL. 27, NO. 8 · AUGUST 1977

- The Pitfalls of "Responsive Government"** **Gregg B. Hughes** 451
Demand for government action displaces self-responsibility with warfare between pressure groups.
- Inflationism** **William H. Peterson** 454
Not all economists applaud and approve the political legacy of Lord Keynes.
- Inflation and Stabilization—
The Elusive Promise** **William L. Baker** 462
Whether government intervenes to inflate or to stabilize the money supply, the effect is to frustrate producers and consumers.
- Free Choice of Currencies** **Henry Hazlitt** 466
The great problem is to get governments to repeal their legal tender laws and to surrender their monopoly of money issue.
- Why Inflation** **Elmer A. Fike** 475
Not the goods and services in the market, but the amount of money, is the critical factor.
- World in the Grip of an Idea
8. Russia: Impotent Populace and
Massive State** **Clarence B. Carson** 477
Soviet Communism has failed economically but has succeeded in erecting a massive state which imposes an oppressive system on the people.
- Who Shall Decide?** **John C. Sparks** 492
Learn from others all you can, but make your own decisions.
- The Texture of Society** **Ridgway K. Foley, Jr.** 495
The nature and uses of government and of market transactions as means to the free society.
- A Climate of Opportunity** **Kenneth McDonald** 505
Required of government: A climate that will allow people to keep a major portion of whatever reward a venture may bring them.
- Book Reviews:** 508
"The Sum of Good Government" by Philip M. Crane
"When Free Men Shall Stand" by Jesse Helms
"On the Silence of the Declaration of Independence" by Paul Eidelberg

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



the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

Irvington-on-Hudson, N.Y. 10533

Tel: (914) 591-7230

Leonard E. Read, *President*

Managing Editor: Paul L. Poirot

Production Editor: Beth A. Herbener

Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

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

Any interested person may receive its publications for the asking. The costs of Foundation projects and services, including THE FREEMAN, are met through voluntary donations. Total expenses average \$15.00 a year per person on the mailing list. Donations are invited in any amount as the means of maintaining and extending the Foundation's work.

Copyright, 1977. The Foundation for Economic Education, Inc. Printed in U.S.A. Additional copies, postpaid: 3 for \$1.00; 10 or more, 25 cents each.

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

Some articles available as reprints at cost; state quantity desired. Permission granted to reprint any article from this issue, with appropriate credit except "Free Choice of Currencies," "World In the Grip of an Idea" and "A Climate of Opportunity."

The Pitfalls of “Responsive Government”

Gregg B. Hughes

SCARCELY A DAY PASSES that we do not read or hear the cry for “more responsive government,” that government “meet the needs of the people,” that we “streamline government for efficiency.”

That these demands go largely unquestioned and unchallenged shows the extent to which the state has assumed a decision-making role and the degree to which we have relinquished our willingness to assume responsibility for the daily conduct of our own lives.

The call for efficiency in government is one we might expect in a society in which it has become accepted policy for the government to make decisions in any and all fields of human endeavor and concern.

Mr. Hughes is a Los Angeles area attorney in the Law Office of Richard N. Deyo.

Thus has the individual lost much of the ability, willingness and opportunity to exercise his own independent judgment in the choice of his job, wages, method of education, and most other aspects of human activity. A moment's reflection will reveal the pervasive reach of government power. Both through choice and by default we have individually and collectively decided that government is to be responsible—and that we as individuals are not.

To this end we have molded a governmental system of special-interest-group warfare. Each of us is but a member of this or that ethnic, racial, social, or economic group. Each group must, through its self-appointed leaders, agitate, propagandize and lobby for the ad-

vancement of its "rights" in opposition to some "exploiter" or "oppressor." If one is candid in his examination, he cannot deny that this pressure-group struggle is the spectacle of American government and society today.

Gradually we have abandoned the traditional and enlightened notion that we exist as individuals, that we must act as individuals, and that what we can and do achieve, we do as individuals. The tragedy of this abandonment is that it makes it more difficult or impossible for people to achieve, advance and prosper. With this erosion of individual responsibility, we lose the factor which provides human life with its excitement and substance.

Pressure-group warfare is generally pernicious in that it has the effect of directing human activity away from truly productive pursuits. The direction is rather toward the wasteful practice of coercively obtaining economic advantage or position for one group at the expense of another. Wealth and opportunity are erroneously viewed as limited, requiring that one man's gain be another's loss. Creation and achievement are supplanted as primary objectives in such a situation by efforts at confiscation and "equalization."

Government fits nicely into this pressure-group scheme—indeed, it


both thrives on it and concomitantly encourages its continuation and intensification. Being a nonmarket mechanism, engaging in fundamentally coercive rather than productive activity, government can and does tailor its operations to carry into effect the demands of the predominating pressure groups. Only by doing so can government jobs and programs be justified and sustained.

This state of affairs differs radically from a traditional market economy and society. For in such a market economy, exchanges of services and commodities (i.e., wealth) are voluntary. And when exchange is voluntary, it means—in the subjective sense—a gain by both parties to the exchange. At least as important as this is the absence of coercion from the process (except where government has corrupted the market mechanism, a topic beyond the scope of this essay).

Thus, the symbiotic relationship of government and the special-interest-pressure-groups brings on the call for "responsiveness in government." The pressure groups demand it as a means of increasing the effectiveness of their activities, as only through government can they begin to achieve their coercive ends. The government encourages such demands as a means of justify-

ing and promoting its programs. The fact that it cares little if at all if such effectiveness is enhanced is immaterial. That the public in general and the pressure groups in particular feel the change is forthcoming serves just as well to justify the government's reason for existence.

"Responsiveness in government" then is little more than a new twist on an old theme—that of activist government and the gradual collectivization of society. It is a manifestation of the statist concept of governmental responsibility and greater unification of the state. The only difference is that the proponents of "responsiveness" are demanding the ultimate—that government be coldly efficient in its efforts to politicize and centralize all decision making, removing from the sphere of individual control all that can be extracted.

The antidote for the poison of "responsive government" is as obvious as it is difficult of attainment. We must come to understand both our nature and our responsibilities as individuals. Only as we do this can we begin to develop the crucial understanding of and belief in the sanctity and sovereignty of the individual person and of his natural right to act out his life according to his choices, free of the coercion which government activity entails. It is as free individuals, acting as independent agents, that we experience our greatest personal glory, happiness and success. We can only achieve this satisfaction when we choose our own goals and direct our own action toward the pursuit of these goals. This opportunity and unique aspect of life is gradually and often irrevocably lost by excessive unification of the state. 

Grover Cleveland

THE LESSON of paternalism ought to be unlearned and the better lesson taught that while the people should patriotically and cheerfully support their Government, its functions do not include the support of the people.

IDEAS ON

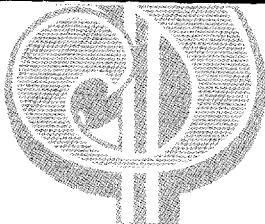


LIBERTY

Every thoughtful American must realize the importance of checking at its beginning any tendency in public or private station to regard frugality and economy as virtues which we may safely outgrow. The toleration of this idea results in the waste of the people's money by their chosen servants and encourages prodigality and extravagance in the home life of our countrymen.



INFLATIONISM



... there is no subtler, no surer means of overturning the existing basis of Society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which not one man in a million is able to diagnose.

So observed John Maynard Keynes, member of the British delegation to the Paris Peace Conference, in his book, *The Economic Consequences of the Peace* (1919). Within four years, a vicious hyperinflation had thoroughly debauched the mark, overturned the existing basis of German society and prepared the way for a Hitlerian *Götterdämmerung*.

Dr. Peterson is the Burrows T. Lundy Professor of Philosophy of Business at Campbell College, Bales Creek, North Carolina.

Lord Keynes' observation is not without irony. Later Keynes was himself to become enraptured with the idea of inflationism—to become, it would appear from the record, the most powerful if inadvertent advocate of that creed in the Twentieth Century.

What is inflationism? I see it as a social mirage, the modern-day version of the ancient search for the philosopher's stone that would transmute lead into gold (or "stone into bread," as Keynes put it in 1943), the hope for a social perpetual motion machine, the wish come true of King Midas for all he touched to turn into gold (only to find he could then neither eat nor drink).

Inflationism, in today's terms, is deficit-spending, deliberate credit expansion on a national scale, a

public policy fallacy of monumental proportions, of creating too much money that chases too few goods. It rests on the "money illusion," a widespread confusion between income as a flow of money and income as a flow of goods and services—a confusion between "money" and wealth. As Adam Smith observed in his *The Wealth of Nations* (1776):

That wealth consists in money, or in gold or silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce, and as the measure of value. . . . To grow rich is to get money; and wealth and money, in short, are, in common language, considered as in every respect synonymous.

Today prosperity has become but a matter of alleviating the "shortage" of money, of making money—literally. And not, primarily, of making goods and services.

For Keynes, inflationism was an idea whose time had come, coming as it did during the Great Depression when people and politicians were desperate for solutions, almost any solution. Besides, the Keynesian solution was not clothed as inflationism but as a means of relieving inadequate aggregate demand with "temporary" or "contracyclical" deficit-spending, of attaining a balanced budget over a business cycle, over a cycle of years.

But the way things worked out,

the legacy of Lord Keynes has become national deficits ad infinitum pretty much the world over.

Economists James M. Buchanan and Richard E. Wagner of the Center for Study of Public Choice at the Virginia Polytechnic Institute decry mounting deficits in America, each one seeming to make yet another entry for the Guinness Book of World Records. In their *Democracy in Deficit: The Political Legacy of Lord Keynes* (Academic Press, 1976, 207 pages, \$11.50), Buchanan and Wagner link Keynesian-type deficits to rising inflation, heavy unemployment, expanding government, lagging capital formation and generally deteriorating economic performance.

More importantly, as may be gathered from their subtitle, the Buchanan-Wagner critique of Keynesian economics is not so much on its technical structure as on its *political* implications, on how these implications have long impacted on economic policy decisions since the Great Depression—decisions adding up to the global Keynesian Revolution.

The General Thesis

In a nutshell, what are the Revolution's technical underpinnings all about? In his *The General Theory of Employment, Interest and Money* (1936), Lord Keynes advanced the possibility, if not prob-

ability, of an underemployment equilibrium in a mature national economy such as Great Britain or the United States. He described a gloomy scenario of a depression long persisting without any effective automatic stabilizing market forces. He saw aggregate employment as a function of aggregate demand (total spending), which tended to contract cumulatively—unless somehow counteracted. Keynes' approach was strictly macroeconomic, or to use the equation popular with Keynesians today: $Y = C + I + G$, or total national income equals total consumption spending, plus total investment spending, plus total government spending.

The cause of depression would be private sector oversaving or underspending (underconsumption and/or underinvestment). Hence Keynes saw G as a *deus ex machina* in which government could simply furnish spending stimulus as needed. The stimulus, which could apparently be turned on and off like a faucet, would happily restore full employment; and it would be greatly aided by the operation of a chain-reaction effect on total income, a cumulative, circulatory expansion of aggregate demand—Keynes' famous "multiplier."

It is to the credit of Professors Buchanan and Wagner that they break new ground in more than four

decades of Keynesian critiques, that they perhaps get to the heart of the problem in the entire Keynesian structure: the assumption of apolitical economic managers, of an intellectual ruling elite, of selfless men in high places dedicated solely to the public interest.

Unbalanced Budgets

As the record shows, this assumption of political altruism has proved to be most unreal in application, from Tokyo to Ottawa, from Stockholm to Buenos Aires, for the Keynesian-oriented world has long been awash in red ink, in perennially unbalanced national budgets. In the clash of pre-Keynesian economics versus post-Keynesian politics, the VPI economists observe that politics wins practically every time.

The Washington experience is a case in point. To be sure, U.S. economic managers, and their counterparts elsewhere, have had to assume an aura of economic omniscience so as to decipher lagging and frequently conflicting economic statistics, to "fine-tune" the economy, to produce just the right mix of fiscal and monetary policy under ever-changing economic conditions. Such an economic challenge is task enough; in a political environment with a national election in every even-numbered year, the challenge amounts to, apparently, an impossibility.

To wit: The officially projected deficit of \$64.7 billion in the 1978 fiscal year beginning Oct. 1 (the 17th deficit since 1960) comes atop an estimated inflation-generating \$52.6 billion deficit this fiscal year.

Why? Why deficit upon deficit, world without end? The answer, in a word, is politics, in a letter, **G**.

Significantly, the VPI economists distinguish between market competition and political competition, a distinction Lord Keynes and his disciples did not develop. Market competition is continuous; at virtually every instance of purchase a buyer can choose from among different competing sellers. Political competition, in contrast, is discontinuous, intermittent; the voters' decision is binding for a fixed term—usually two, four, or six years. Market competition permits several competitors to survive at the same time; the capture by one seller of a majority of the market does not deny the ability of the minority to choose its preferred supplier. Political competition, on the other hand, has an all-or-none characteristic; the capture of a majority or even a plurality of a market basically hands over the entire market to a single supplier.

Nor do the distinctions stop there. In market competition, as Buchanan and Wagner note, the buyer can be reasonably certain of just what he has bought for his

money. Not so in political competition, for there the buyer is, in a sense, obtaining the services of a rather free agent. This political agent cannot be bound in matters of specific compliance, with many a platform promise going awinging with the swearing-in ceremony.

A Bias Toward Inflation

Given such a political environment, the Keynesian provision of an elastic **G** is almost like giving a child free rein in a candy store. Professors Buchanan and Wagner hold that "the Keynesian destruction of the balanced budget constraint" on a year-to-year basis has yielded a political bias toward budget deficits, monetary expansion and public-sector growth. The bias ties into the politicians' natural proclivity to spend, to avoid taxing, to appear humanitarian, altruistic, munificent (with, of course, other people's money)—in effect, to buy votes. The bias also ties into the fact that the economic managers are, in every case, political appointees and, especially in the instance of the Federal Reserve Board, creatures of Congress; this means their ability to contravene their political superiors is correspondingly weak.

This politicalization of the Dismal Science in the halls of government seems to explain American fiscal and monetary experience since the

Great Depression. It seems to explain how economic theory and policy have developed in recent decades to meet, if not marry, political exigencies. The marriage, if that's what it is, has not been a happy one. A glance at recent decades of "managing the economy" illustrates this marital incompatibility.

In the early stages of the Great Depression (itself largely the product of credit expansion in the Twenties followed by credit contraction in the early Thirties), Franklin Roosevelt, as a Presidential suitor in 1932, ran on a balanced-budget plank and publicly decried GOP deficits ("continuation of that habit means the poorhouse"). Once in office, however, President Roosevelt soon found "pump-priming" expansion of spending programs politically popular, while tax increases were not. The balanced budget goal seemed more and more elusive.

Political Attributes

Moreover, along came Keynes' *General Theory*. Though addressed to academics and incomprehensible to almost all but professional economists, it was promptly perceived by politicians for its political value. Deficits became respectable. Spending programs and tax measures could be politically manipulated this way and that. A "flexible" budget, after all, has to play the main role in stabilizing the

economy and sustaining "full employment." Baldly, inflationism was in.

The "full employment" concept was enacted into law in the Employment Act of 1946. The Act, which formally married economics to politics, directs the federal government to "use all practical means consistent with its needs and obligations . . . for the purpose of creating and maintaining . . . conditions . . . to promote maximum employment, production, and purchasing power." The Act leaves Professors Buchanan and Wagner cold. They protest its political implications and believe that the Act "may come to be regarded as one of the more destructive pieces of legislation in our national history."

They see, for example, how the Eisenhower Administration played a reluctant spouse in the Keynesian marriage between political practice and economic theory. The GOP came into office to do something about inflation and the growth of Federal spending, only to come under Democratic fire for "fiscal drag." The Republicans lost the White House in 1960, after losing the Congress in 1954 (which hasn't been regained since).

Initially President Kennedy was also something of a reluctant spouse, but, note the VPI economists, his economic counselors were, to a man, solidly Keynesian.

The counselors, who included Walter Heller of the University of Minnesota and John Kenneth Galbraith of Harvard, apparently won a complete convert in JFK after the 1962 steel pricing confrontation and consequent stock market slump. In 1963 President Kennedy called for a dramatic tax cut, without any corresponding spending cut, in order to accelerate economic growth and bring actual GNP in line with *potential* GNP, given the productive capacities of the nation. With the tax cut, enacted in 1964, the New Economics had really arrived, but hard-nosed politics had long preceded it.

In this new dawn it seemed that "the enlightened would rule the world, or at least the economic aspects of it," to quote Buchanan and Wagner. Then they add: "But such dreams of Camelot, in economic policy as in other areas, were dashed against the hard realities of democratic politics."

Redistribution Schemes, Open-Ended Spending

The hard realities included the redistributionist zeal of Lyndon Johnson's "Great Society" augmented by his Vietnam guns-and-butter strategy, and Richard Nixon's New Economic Policy of wage/price controls (which quickly became a cover for the fastest monetary growth since World War

II—12.1 per cent in election-year 1972).¹ The realities also included the open-ended spending proclivities of the Welfare State and the no-growth implications of Ralph Nader, the Sierra Club, Common Cause, and Senator Edmund Muskie's Environmental Protection Agency.

The Keynesians also overlooked some economic as well as political realities. Probably the most devastating reality has been the unprecedented worldwide experience of "stagflation"—heavy inflation cum heavy unemployment. In the U.S., inflation was 12.2 per cent in 1974; in 1975 unemployment was 8.5 per cent. How did this happen? The VPI authors cite some economic reasons.

For apart from its political naivete, the New Economics can be faulted on at least three technical grounds. First, the Keynesians

¹From Ludwig von Mises, *Planning for Freedom* (Libertarian Press), page 81: "The superstition that it is possible for the government to eschew the inexorable consequences of inflation by price control is the main peril. For this doctrine diverts the public's attention from the core of the problem. While the authorities are engaged in a useless fight against the attendant phenomena, only few people are attacking the source of the evil, the Treasury's methods of providing for enormous expenditures. While the bureaus make headlines with their activities, the statistical figures concerning the increase in the nation's currency are relegated to an inconspicuous place in the newspapers' financial pages."

have relied on the money illusion—the notion that fiscal-monetary stimulus would yield a beneficial “automatic lowering of real wages as a result of rising prices” (*General Theory*, p. 264). But in a world in which inflation is widely anticipated by market participants through escalator clauses, increased wage demands and inflation-hedged price boosts, the money illusion breaks down. Indeed, Buchanan and Wagner note that “the generation of inflation that has been predicted will do nothing towards stimulating employment and output.”

Secondly, the Keynesians overlooked the impact of inflationism on economic calculation and resource allocation—a possible general disruption of the market economy, perhaps a full-fledged business cycle. Relative prices, including interest rates, are distorted, unevenly, by rapid increases of the money supply entering the economy at different times and in different ways and places. Market participants receive false signals. For example, corporate income statements reflect “phantom profits” which do not incorporate true inventory valuations and especially plant and equipment replacement costs; moreover, reported “record profits” are expressed in current, inflated dollars and not in constant dollars.

Thirdly, Keynes and the Keynesians overstress macroeconomics to the detriment of vital microeconomic considerations. This leads to a one-dimensional, depthless perception of the forest but not of the widely different individual trees. **G** is perforce a heavy-handed economic policy instrument—taking such diverse, discrete forms as dams, defense projects, welfare programs and so on. Financially, **G** poses quite a drain on capital markets—and private capital formation—a “crowding-out” of private borrowers through higher interest rates.

Unemployment Realities

This strictly macroeconomic view of things leads to the glossing over of still other problems, including the microeconomics of unemployment. In the case of structural unemployment, for example, the authors observe in a footnote that government spending may act to cement pockets of unemployment “into quasipermanence.” Or consider the problem of properly defining full employment, traditionally set at 4 per cent. Now it turns out that 4 per cent is much too low, and may have been so for almost the last 30 years.

Economist Robert Hall of the Massachusetts Institute of Technology, for example, says that the sustainable rate of unemployment,

below which inflation begins to escalate, was around 5 per cent in 1948 and has slowly risen to between 5½ per cent and 6 per cent in recent years. This rise, reflecting in part the influx of women and teenagers into the labor force, seems to mean that economic managers have long been working with a fallacious policy goal. Nonetheless, the Humphrey-Hawkins national economic planning bill, the Full Employment and Balanced Growth Act of 1976, went beyond the 4 per cent goal and mandated a quixotic unemployment target of 3 per cent, to be attained within four years.

Balance the Budget

Well, what is the solution to stagflation and related ills? James Buchanan and Richard Wagner believe the heart of the problem lies in "the political legacy of Lord Keynes." They believe the solution lies in virtually banishing peacetime deficit-spending. They call for, as do Senator Carl Curtis of Nebraska and Congressman Bill Archer of Texas, a Constitutional amendment requiring an annually balanced budget, except in a national emergency (as declared by two-thirds of both Houses of Congress and approved by the President). Their

solution merits serious consideration.

In any event, the timely Buchanan-Wagner book focuses attention on the overriding economic paradigm of our age: government intervention to "improve" free market performance. This is a paradox, for government is more often the problem than the answer. In the case of Keynesian theory and policy, maybe Prime Minister James Callaghan of Great Britain, the land of Lord Keynes, has the last word on inflationism in his address to his own Labor Party last fall:

We must ask ourselves unflinchingly, what is the cause of high unemployment? Quite simply and unequivocally, it is caused by paying ourselves more than the value of what we produce. This . . . is an absolute fact of life, which no government, be it left or right, can alter. . . . We used to think you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you in all candor that that option no longer exists, and that insofar as it ever did exist, it worked by injecting inflation into the economy. And each time that happened the average level of unemployment has risen. Higher inflation, followed by higher unemployment. That is the history of the last 20 years.





Inflation and Stabilization— *The Elusive Promise*

MOST “free marketers” understand that inflation is the increase of the money supply. In other words, inflation is wholly a government-sponsored blessing. A lot of people, who otherwise believe in a free market economy, feel that a “certain amount” of inflation is necessary. Otherwise, they state, there would not be enough money to buy the goods generated by increased production in a dynamic and expanding economy. Besides, they argue, the “price level” should be kept stable. Thus, some governmental interference is warranted even in a free market.

But just how true are all such assertions?

The “not-enough-money” concept has been around for a long time. It

was popularized on a grand scale by John Law, the Scottish-turned-Frenchman central banker, when he propagated his inflationary schemes at public expense. The theory was that so much money would buy just so much goods. Beyond that, no further production was possible without an increased supply of money.

This monetarist approach simply ignores the demand side of money while stressing the supply side. In reality, as production increases in an economy with a static money supply, prices will simply tend to drop. Competition or demand for money becomes more fierce. The result is a monetary unit that continually enhances in value. Supply and demand works for money just as it does for apples and pears. There is always a sufficient amount

Mr. Baker teaches in the school system in Lubbock, Texas.

of money to buy the products currently on the market *without* a recourse to the printing presses. Inflation is not needed to foster progress and industrialization. In fact, the free market can do much better without recourse to any type of intervention whatever.

But the advocates of inflationism do not end there. The price level, they maintain, must be kept stable. We must not have a fluctuating dollar.

Stabilization, the Enemy

First, there is nothing sacred about “stabilization”—especially as intended by the inflationist. In fact, it is precisely *because* most central banks are dedicated to “stabilizing” their respective currencies that tremendous fluctuations in the value of the monetary unit are made possible at all. “Stabilization” is the enemy of the sound dollar.

Life is change. Life and valuations are always in flux. It would be absurd to attempt to freeze values where they stood yesterday, last week, or last year. The same applies in money and pricing. It is absurd to attempt to “prop up” prices via inflation. In the dynamic economy of the free market where prices tend to fall, the dollar is constantly growing in value. In order to “stabilize,” the monetary unit must be continually weakened, causing

unwarranted distortions in the market.

The truth is that the dollar or monetary unit cannot be “stabilized.” It is a false issue. Purchasing power is simply transferred from the citizenry to the government who is the holder of the new “funny money.” Current dollar holders are “stabilized” to the tune of whatever the government buys in confiscated purchasing power. The “stabilization” issue is just another apology for Big Government and Big Spending. It is a particularly heinous fallacy that has no business in literate economic discussion—especially among those who supposedly cling to the principles of the free market.

The Myth of Price Level

But there are other errors in the stabilization doctrine. One is the very concept of a “price level” at all. There simply “is no such animal.” It is a myth that is taking an exceptionally long time to die. There can be no question of an “average” price or a “price level” in an economy of unlike goods and services. How does one compare, average, or add the price of an orange to the price of a swimming instructor and come out with a “level” that means anything whatever? There simply are no correlation points. But assume, for the moment, that a “price level” *did* exist.

Why should it be kept "stable"? What is to be gained, and who is superhuman enough to administer it? And even if we could determine what the "price level" is, we must then ask why *this* price level and not the price level of last year or year before last?

Assuming, however, that all these problems were answerable and surmountable, a host of other difficulties must immediately present themselves. For, the government must dispose of the money somehow in the market place. The question becomes: "Who shall get it first?" If inflation (or "stabilization") were neutral in its effects, it would be of no concern to any of us, as we would all be affected proportionately. Prices would increase in direct proportion to the new money which we would all magically receive (magically) at the same instant of time. No one would benefit at the expense of another (except on outstanding contracts). The only way inflation would affect us in such circumstances would be to force us to become better mathematicians.

But reality is different. The evil of inflation is the *disproportionate* effects it has upon the populace—not of any proportionate rise in the "price level" that affects each and all to the same extent. It isn't any abstract, mystical "price level" that gets the money, but rather real

flesh and blood people who will use it to bid up prices for existing goods and services at the expense of everybody else in the market place. So *who* gets it (and gets it first) will make a big difference. "Stabilization" will affect different people to a different extent depending on when (or if) they get *their* hands on the newly "stabilized" money. One man's stabilization is another man's poison.

As stated before, life is change. But the "stabilization" theory aims at keeping things the same. It seeks to defy change. What it usually does is just to create the wrong kinds of change—such as an eroding monetary unit and a weakening incentive to save. As an economic theory, it is bankrupt. It can only disrupt the market and rob people of their wealth which they have accumulated.

The Role of Interest

The most serious problem of inflation, however, escapes the monetarist completely. And that is the role of interest rates in the modern structure of production. Inflation, at first, lowers the money rate of interest, thus attracting more business investment. Real savings, however, have not increased.

Businessmen have been lulled into wasteful and unprofitable investments by these false rates.

Why "false" rates? Because in-

terest is really the discount of future goods over present goods. This method of analysis is called the time-preference approach. The lower the rate, the more "future looking" the society is. In other words, people have a "low" time preference for present goods as opposed to future goods. Businessmen can "lengthen the structure of production" because people are saving and supplying the capital needed to engage in these time-consuming ventures. When additional money enters via the loan market, all this is thrown out of kilter. The market is distorted. Interest rates must fall, for a while, to deal with the extra loan money. In so doing, a false time preference is indicated. It seems as if more people are becoming "forward looking" by saving. But in reality they are not. After the new money has worked its way down through the economy and rates tend to return to "normal," this error will become manifest. The situation will be made worse if it is repeated.

Because interest rates indicate either a low or high time preference, they are thus effective signals to businessmen as to what the consumer wants produced, whether it be automobiles or snowcones. To tamper with these rates destroys

that device and sets the stage for a "bust" which must surely come, be it great or small.


Inflation Always Distorts

Inflation, then, is more money, not a certain amount of money. Inflation *always* distorts the market; it never benefits the market.

Inflation has always been the recourse of governments in search of cheap money. It will always bring disaster. Society cannot have the supposed "benefits" of inflation without paying the price. Inflation is *not* a certain rate of money increase. It is money increase, *period*.

And it is always bad. It will always lead to distorted production at the expense of what *would* have been produced without the inflation. Even when inflation occurs in such a minor degree that it is unnoticeable (as in an era of expanded production and falling prices), it still will work its effects at the cost of what would have been.

Inflation is no elixir of life. It is not the philosopher's stone. It will not create a fountain of perpetual youth. It cannot turn stones into bread. It cannot make gold out of paper. It cannot create wealth.

It can only destroy. And that is just about all that "stabilization" can hope to achieve. 

Free Choice of Currencies

Henry Hazlitt

IN its issue of November, 1975, *The Freeman* published an article of mine entitled "The Search for an Ideal Money." Let me summarize its main conclusions.

1. "The first requisite of a sound monetary system is that it put the least possible power over the quantity or quality of money in the hands of the politicians."

2. "It is the outstanding merit of gold as the monetary standard that it makes the supply and purchasing power of the monetary unit independent of government, of officeholders, of political parties, and of

pressure groups. The great merit of gold is precisely that it is scarce . . . It cannot be created by political fiat or caprice. It is precisely the merit of the gold standard, finally, that it puts a limit on credit expansion."

3. But there are two major kinds of gold standard. One is the fractional-reserve system, and the other the pure gold or 100 per cent reserve system. The fractional-reserve system "is what we now call the classical gold standard." It permitted excessive credit expansion followed by forced contraction, and so "tended almost systematically to bring about the cycle of boom and slump." The development of government-controlled central banks—in our own case of the Federal Reserve System—made the overexpansion of credit much worse.

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Baron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics"*, *The Foundations of Morality*, and *What You Should Know About Inflation*.

4. "The fractional-reserve system ought to be abandoned . . . The U.S. could then return to a sound currency and a sound gold basis."

5. But to expect this today, as long as governments are in control, "is to expect a miracle." The schemes of the currency reformers have failed "because they have practically all begun with the same false assumption—the assumption that the creation and 'management' of a monetary system is and ought to be the prerogative of the State The real solution is just the opposite. It is to get the government, as far as possible, out of the monetary sphere. And the first step libertarians should insist on is to get our government and the courts not only to permit, but to enforce, voluntary private contracts providing for payment in gold or in terms of gold value Thus there would grow up, side by side with fiat paper money, a *private* domestic and international gold standard . . . ready to take over completely on the very day that the government's paper money became absolutely worthless."

Hayek's Proposal

Since that article appeared, Professor F.A. Hayek, the Nobel laureate, has published two remarkable pamphlets embodying similar proposals, but carrying them in some important respects further.

The first of these is *Choice in Currency*.¹ I find this wholly admirable. Hayek begins by pointing out that the chief root of our recent monetary troubles is the scientific authority which the Keynesians seemed to give to the superstition that increasing the quantity of money can ensure prosperity and full employment. He then proceeds to point out the fallacies in this view. Inflation, however, he concedes, even before explicit Keynesianism, largely dominated monetary history until the emergence of the gold standard. The gold standard brought two centuries of stable prices and made possible the development of modern industrialism:

"It was the main function of the gold standard, of balanced budgets, of the necessity for deficit countries to contract their circulation, and of the limitation of the supply of 'international liquidity', " he points out, "to make it impossible for the monetary authorities to capitulate to the pressure for more money."

But under present world political conditions he does not believe that we can now remedy the situation by "constructing some new international monetary order, whether a new international monetary authority or institution, or even an inter-

¹London: The Institute of Economic Affairs, 1976, 48 pp.

national agreement to adopt a particular mechanism or system of policy, such as the classical gold standard. I am fairly convinced that any attempt now to re-instate the gold standard by international agreement would break down within a short time and merely discredit the ideal of an international gold standard for even longer. Without the conviction of the public at large that certain immediately painful measures are occasionally necessary to preserve reasonable stability, we cannot hope that any authority which has the power to determine the quantity of money will long resist the pressure for, or the seduction of cheap money."

What Is the Remedy?

What, then, is the remedy? What is so dangerous and ought to be done away with, Dr. Hayek insists, is not the right of governments to issue money but their *exclusive* right to do so and their power to force people to use it and to accept it at a particular price. The legal tender laws should be repealed.

A great deal of confusion has existed about this. It is necessary, of course, for the government to decide what kind of money it will accept in payment of taxes, and it is necessary for the courts to be able to decide, in case of dispute, in what kind of money private debts should be paid. No doubt, in the absence of

specification, courts would continue to decide that debts can be paid off in the official money of the country, no matter how much it may have depreciated. But if the debtor and creditor have expressly contracted for a payment to be made in gold, or in Swiss francs, or in D-marks, then the courts should hold that contract valid. The common law of enforcement of contracts should apply.

The immediate advantages of this should be obvious. A government would no longer be able to protect its money against competition. If it continued to inflate, its citizens would forsake its money for other currencies. Inflation would no longer pay.

There is, in a sense, nothing novel about Hayek's proposal. Toward the end of the German hyperinflation of 1920 to 1923, people refused to accept the old paper marks on any terms, and began to do business with each other in gold, dollars, Swiss francs, and even in a multitude of private currencies. But in any country in which the legal tender laws did not exist, inflation would never again go to such tragic lengths—if, indeed, it could be continued to any substantial extent at all.

If the present writer were to venture a prediction, it would be that when the gold standard is restored—as I believe it eventually will be—it is far more likely to be restored

first, not in countries that have been suffering the least, but in those that have been suffering the worst inflation. It will first happen, not by deliberate governmental policy, but by breakdown and default. No matter what the nominal legal penalties, people will cease doing business in the national paper money. (They did so not only in Germany in 1923, but in the assignat period in France, and in Soviet Russia in 1922.)

Denationalization

I should like to turn now to the second Hayek pamphlet that I referred to a few pages back. This is called *Denationalization of Money*.²

It followed eight months after the pamphlet on *Choice in Currency*, and it continues the argument put forward in the latter. That argument is summarized in ten numbered points printed on the pamphlet's back cover. I quote the first five:

1. The government monopoly of money must be abolished to stop the recurring bouts of acute inflation and deflation that have become accentuated during the last 60 years.

2. Abolition is also the cure for the more deep-seated disease of the recurring waves of depression and unemployment attributed to "capitalism."

3. The monopoly of money by government has relieved it of the need to keep its expenditure within its revenue and has thus precipitated the spectacular increase in government expenditure over the last thirty years.

4. Abolition of the monopoly of money would make it increasingly impossible for governments to restrict the international movement of men, money and capital that safeguard the ability of dissidents to escape oppression.

5. These four defects—inflation, instability, undisciplined state expenditure, economic nationalization—have a common origin and a common cure: the replacement of the government monopoly of money by competition in currency supplied by private issuers who, to preserve public confidence, will limit the quantity of their paper issue and thus maintain its value. This is the "denationalization" of money.

Most libertarians can endorse the first four of these points unreservedly. About the fifth and those following I personally harbor grave doubts.

"Free" private currencies have been tried. In our early American history they were tried repeatedly in nearly all the existing states. Some of the states issued their own money, usually with disastrous results; and most of the private currencies that they licensed met with little better fate. Panics and financial collapses became a matter of course. To take one state at random, in Michigan, after 1836:

²London: The Institute of Economic Affairs, 1976, 108 pp.

Fraudulent overissues were frequent and in many cases not even recorded. Before long a million dollars in worthless bank notes were in circulation, a bewildering variety of issues each circulating at its own rate of discount with a confusion that required corps of bookkeepers to keep the accounts of a firm straight. Merchants kept couriers by whom they hurried off to the banks the notes they were compelled to take, in order to exchange them—if possible—for something which had more value. Misery and bankruptcy spread over the state . . . The climax came in 1844 when, nearly all the “free banks” being in the hands of receivers, the state supreme court held that the general banking law had been passed in violation of the constitution and hence that even the receiverships had no legal existence!³

Other states made other provisions and other reserve requirements for note issues by private banks, but the history of laxly controlled private note issue in all the states is depressingly similar. The interested reader can find a short but excellent account (pp. 180 to 193) in the book by Dr. Groseclose from which I have just quoted.

In the light of this history, I can only regard with astonishment the extraordinary optimism of Dr. Hayek regarding the outcome of

unrestricted private note issue. He assures us that private competition in issuing money will lead us to a far sounder money than the classic gold standard was ever able to provide. The private issuers, he seems to assume, will in all cases be scrupulously honest, and will have in mind only their *long-run* self-interest; and therefore “money is the one thing competition would not make cheap, because its attractiveness rests on its preserving its ‘dearness.’ ”

“Abstract Units,” Not Convertible to Gold

Hayek does not seem to think that it is either necessary or desirable for the private issuers of currency to keep it convertible into gold. He suggests that their money could consist of “different abstract units” (p.25). How a currency could consist of a merely “abstract” unit, and how a private issuer could get it launched and accepted at a “precisely defined” (p. 39) purchasing power, he does not explain.

If he were in charge of one of the major Swiss joint-stock banks, he tells us, he would issue a unit called, say, a “ducat.” “And I would announce that I proposed from time to time to state the precise commodity equivalent in terms of which I intended to keep the value of the ducat constant, but that I reserved the right, after announcement, to

³Elgin Groseclose, *Money and Man* (University of Oklahoma Press, fourth edition, 1976) p. 188.

alter the composition of the commodity standard as experience and the revealed preferences of the public suggested" (p. 39).

It is clear that Hayek has in mind that private issuers could and should adopt a "commodity reserve" or "market basket" standard. (He has advocated such a standard for a long time. For example, in *The Constitution of Liberty*, published in 1960, he tells us (p. 335): "A commodity reserve standard which has been worked out in some detail appears to me still the best plan for achieving all the advantages attributed to the gold standard without its defects." And he refers there to an essay advocating such a currency that he published as early as 1943.)

A Problem of Conversion

But Hayek is bafflingly vague concerning how a private issuer would maintain the value or purchasing power of such a currency. He says that "the issuing institution could achieve this result by regulating the quantity of its issue" (p. 43) and by keeping it "scarce" (p. 85). But quantity and scarcity mean nothing in this context except in relation to the liquid assets of the particular issuer and his demonstrated ability and readiness to keep his currency unit convertible on demand into the precise weight of the concrete commodity that his

unit is supposed to be worth. He can make it convertible into a gram of gold or an ounce of silver or a pound of tobacco or a bushel of wheat. But there is no feasible way in which he could make it convertible into, say, a specified amount of each of the 400 or so commodities and services that enter into the official Consumers Price Index, not to speak of the 2,700 commodities in the official Wholesale Price Index. And no holder of his currency would in any case want to load himself down with these and give himself the problem of disposing of them.⁴

Others before Dr. Hayek have had a similar yearning for a commodity standard, but have been aware of this practical problem. The most prominent is Irving Fisher, who in the 1920's proposed his "compensated dollar." This is a dollar that would have been convertible into a constantly changing quantity of gold, to keep it fixed in value in relation to an average price

⁴In the 1943 essay by Hayek that I previously mentioned, "A Commodity Reserve Currency," included in his *Individualism and Economic Order* (University of Chicago Press, 1948), he endorses a scheme by Benjamin Graham involving only 24 different commodities. I need not discuss that plan in detail here, and will say only that I regard it as incredibly clumsy, complicated, costly, wasteful, unsettling, and altogether impracticable. It was in any case proposed as a government scheme, and would inevitably have become a political football.

of commodities as determined by an official index.

Fisher's compensated gold dollar would have solved the problem of the utter impracticability of any direct conversion of a currency unit into a trainload or shipload of assorted commodities, but it would have solved it at a prohibitive cost. As Benjamin M. Anderson⁵ and others pointed out, it would have enabled international speculators to speculate with impunity against the dollar and the American gold reserve, and would have had other self-defeating and confidence-undermining effects.

What is strangest about the fascination that a commodity or "fixed-purchasing-power" standard has exercised over some otherwise brilliant minds is that such a standard is quite unnecessary. As Murray N. Rothbard has put it: "If creditors and debtors want to hedge against future changes in purchasing power, they can do so easily on the free market. When they make their contracts, they can agree that repayment will be made in a sum of money *adjusted* by some agreed-upon index number of changes in the value of money."⁶

This whole discussion of a private

⁵See his *Economics and the Public Welfare* (New York: Van Nostrand, 1949) Ch. 51.

⁶*What Has Government Done to Our Money?* (Santa Ana, Calif. Rampart College) p. 17.

commodity-reserve currency may seem like a diversion which I could have avoided. I have made it chiefly because Dr. Hayek's deservedly great authority might otherwise lead some persons to advocate a false remedy and others to reject the whole idea of a private currency as chimerical.

But we can safely return to the recommendations of Hayek's earlier *Choice in Currency* pamphlet of 1976 and to my own suggestion of a private gold standard in 1975. Both are entirely valid.

Let us not reject the gold standard because governments once embraced it. After all, it was the end-product of centuries of experience. It was the survival of the fittest against the early competition of oxen, sheep, hides, wampum, tobacco, iron, copper, bronze, and finally of silver. It was the outcome of competition in the market place, as I am confident it would be again. It was only after its victory in private use that governments took it over, exploited it for their own purposes, diluted it, perverted it, and finally destroyed it.

Private Coinage; Notes Fully Redeemable

Let us see where this leads us: Governments should be deprived of their monopoly of the currency-issuing power. The private citizens of every country should be allowed,

by mutual agreement, to do business with each other in the currency of any other country. In addition, they should be allowed to mint privately gold or silver coins and to do business with each other in such coins. (Each coin should bear the stamp, trademark or emblem of its coiner and specify its exact round weight—one gram, 10 grams, or whatever. It would be preferably referred to by that weight—a gold-gram, say, and not bear any more abstract name like dollar or ducat.) Still further, private institutions should be allowed to issue notes payable in such metals. But these should be only gold or silver certificates, redeemable on demand in the respective quantities of the metals specified. The issuers should be required to hold at all times the full amount in metal of the notes they have issued, as a warehouse owner is required to hold at all times everything against which he has issued an outstanding warehouse receipt, on penalty of being prosecuted for fraud. And the courts should enforce all contracts made in good faith in such private currencies.

At first glance this proposal would seem to be much more restricted and hampering than the Hayek scheme. But it would, in fact—if it could be achieved—lead to an almost revolutionary monetary reform. The competition of

foreign currencies and of private coins and certificates would bring almost immediate improvement in most national currencies. The governments would have to slow down or halt their inflations to get their own citizens to continue to use their government's money in preference to the most attractive foreign currencies, or to private gold or silver certificates.

But something far more important would happen. As the use of the private currencies expanded, a private gold standard would develop. And because of the restrictions placed on it, it would be a pure, a 100 per cent, gold standard. The government fractional-reserve gold standard—which was the "classic" gold standard—was finally stretched and abused to the point where, in my opinion, it can never be restored by any single nation or even by a "world authority."

Worthy of Trust

But this, when one comes to think of it, will be ultimately a tremendous boon. For though people will probably again never trust a fractional-reserve gold standard, they will trust a full gold standard. And they will trust it the more if it is no longer in the exclusive custody of governments—consisting of vote-seeking politicians and vote-seeking officeholders—but also in private custody. The gold reserves


will no longer be held solely in huge national piles—subject often to the overnight whim or ukase of a single man (Franklin D. Roosevelt or Richard Nixon). Gold coins will circulate, and be held by millions, and the gold reserves will be distributed among thousands of private vaults. The private certificate-issuers would not be allowed to treat—as governments have—this gold held in trust as if it had somehow become their own property. (In the U.S., that engine of inflation known as the Federal Reserve System would of course be abolished.)

Permitting private gold coinage and private gold-certificate issues will allow us to bring the world back to a pure gold standard. This has hitherto been considered an utterly hopeless project. As long as we were operating on a fractional-reserve gold standard, any attempt to return to a pure or 100 per cent gold standard would have involved a devastating deflation, a ruinous fall of prices. But now that not only the United States, but every other nation, has abandoned a gold standard completely, the former problem no longer exists. The beginning of the new reform would bring a dual system of prices—prices in gold, and prices in the outstanding government paper money. In the transition period, prices would be stated in both currencies, until the

government paper money either became worthless, or the issuing government itself returned to a gold standard and accepted its outstanding paper issues at a fixed conversion rate. (An example of this was the German acceptance of a trillion old paper marks for a new rentenmark—and finally gold mark—after 1923.)

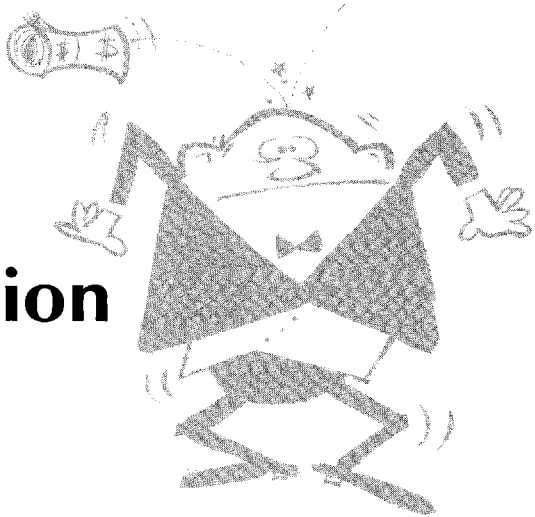
Subsidiary Coinage

Government-issued money did supply a uniform subsidiary coinage. It is hard (though not impossible) to see how a private currency could solve this problem satisfactorily. Perhaps governments could be trusted to continue to mint a uniform subsidiary coinage and keep a 100 per cent gold reserve at least against this.

But apart from such comparatively minor problems, I can see no great difficulties in the way of a private money. The main problem is not economic; it is political. It is how we can get governments voluntarily to repeal their legal tender laws and to surrender their monopoly of money issue. I confess I cannot see how this political problem is going to be solved. But it is the urgent and immediate goal to which every libertarian, and every citizen who can recognize the great jeopardy in which we all stand, should now direct his efforts. 

Why Inflation

Elmer A. Fike



MANY ECONOMISTS believe that high prices are a symptom, not the cause, of inflation, just as fever is a symptom rather than the cause of sickness.

If this is so, what is the cause of inflation? One school of economics believes that there is a relationship between the amount of money and the goods and services available at any one time. Then, if the money supply is increased, there is a resultant, although delayed, price increase. In simple terms, if there are one hundred bushels of corn available and a money supply of \$100, the price is \$1.00 per bushel. If the government arbitrarily prints another \$100 of money and puts it into the market, the price of corn

soon adjusts to \$2.00 per bushel. To say it another way, the price of goods adjusts (slowly but surely) to use up the amount of money available to buy those goods.

Another illustration may shed light on this rather difficult concept that high prices are the result, rather than the cause, of inflation. Let us say a family is living on a fixed income of \$500 per month and their gas bill is \$50 per month. Then their bill is doubled to \$100 per month. Isn't this increase a cause of inflation? According to this theory, no. Such an increase undoubtedly causes hardship, but it does not cause inflation. If the income of the family is fixed, they no longer have \$450 to spend on items other than gas, but, with the gas price increase, only \$400. To the extent

Mr. Fike is president of Fike Chemicals, Inc., Nitro, West Virginia.

that the amount of money they have available for other items has been decreased, their demand for those items has also been decreased. If it ended right here, there would be no resulting inflation.


However, with today's society and social pressures it does not end there. The man who has had an increase in his gas bill goes to his employer and demands a raise. When he has sufficient clout by virtue of a union organization, the employer gives him the raise and in turn raises his asking prices. This still does not cause inflation. Instead, it just reduces the sales potential for his product as long as the money supply remains constant. It does, however, result in hardship on his customers who can buy less of his product or other products because his price is higher. Because the demand for goods has been reduced, some employers are forced to reduce their hiring and some unemployment results.

The hardship and unemployment results in pressure on the politicians who, in order to get re-elected, think they must do something about the situation. Their normal course of action is to give relief in the form of unemployment payments or make-work projects, both of which cost money. Even this program would not cause inflation if taxes were raised to pay for the program, but

increased taxes would cause further hardship just as higher prices already have. Instead of raising taxes, they could borrow the money from private lending sources to finance the give-away programs; but this would reduce the amount of money available to private industry and thereby reduce industry's ability to provide jobs.

The only other choice to finance the give-away is to crank out additional money from the printing press, and this, then, is the real cause of inflation. When more money enters the market without any real increase of goods and services being available, the money already existing is devalued proportionally (and, as in the original story, the price of corn has gone from \$1.00 to \$2.00 per bushel).

A recent study has shown that the rate of inflation increases every time the amount of money is increased just as surely as night follows the day.

Government officials continue to talk about controlling inflation, but it is unlikely that they will take the medicine to control the real sickness. It is far more popular to try to control high prices which, like fever, are just a symptom of the disease. To control the disease takes more self-denial than most government officials are willing to use. 



World in the Grip of an Idea.

Clarence B. Carson

8. Russia: Impotent Populace and Massive State

THE ORDINARY METHODS and language of scholarship are inadequate for and inappropriate to the examination and assessment of Soviet Communism. Some examples may illustrate the point. According to most accounts, the Soviet Union is now one of the leading industrial nations in the world. In fact, the Soviet Union has long been the leading exporter of communist ideology in the world. The few products it can sell on the world market are offered in

support of the ideology. On the other hand, it must surely be the leading importer of scientific and technological information. It has had the most diligent crew of researchers and translators of scientific, medical, and technological journals from other lands of any country in the world. What is the balance of trade? Not even those trained in the new mathematics could compute the balance from the export of ideology and the import of scientific information.

A country which can only dispose of its shoddy merchandise by erecting barriers to keep other goods out and prevent its inhabitants from

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.

going elsewhere to shop should not be styled a leading industrial nation. (One of the considerable joys of those who can take a trip to Western Europe or America is the opportunity to go shopping. Those fortunate enough to be able to go abroad are usually besieged by friends to make purchases for them while they are there.) It should be called a leading jailer nation.

A nation which exports communist ideology and imports scientific information no more has a balance of trade than does a sprig of mistletoe attached to the limb of a tree. It is a parasite. The language of political science is only a hindrance in describing elections in which there is only one candidate, or constitutions whose guarantees of freedom of religion only serve the power of government in launching a massive campaign against religion. Such terms as "fraud," "deception," and "cruel joke" serve all too well. Legal scholars are superfluous to the study of trials in which the penalty has already been determined. The paraphernalia of scholarship, when applied to the Soviet Union, tends to conceal what is going on rather than expose it.

Maladjusted Individuals

Zhores Medvedev, a Russian biologist, was seized by Soviet police in 1970 and locked up in a mental institution. The diagnosis

described him as being unable to adjust to the social environment, as suffering from reformist delusions, and as having an exaggerated sense of his own importance. Medvedev suggests, in a book about his experience, that by the criteria applied to him certain important personages must have been in much worse condition than he was. While he prudently avoids naming them, since he was still in Russia, it is clear that he was talking about Stalin and Khrushchev. He says:

... Take, for example, that outstanding figure [Stalin] whom we all remember so well as an economist, a military leader, philosopher, statesman and diplomat. And suddenly out of the blue he publishes his article on the problems of linguistics and personally begins to introduce tangerine and eucalyptus trees to the Crimea. Then there was that other great leader [Khrushchev], also wise politician, diplomat, economist, agricultural specialist and historian of the Party. Suddenly he begins to make decisions about the architecture of apartment houses, arbitrates in a disagreement between two schools of genetics . . . , forbids the private ownership of cattle in the countryside and teaches writers the secrets of their craft. And of each of them it was true to say that they were proud, expressed themselves dogmatically and were convinced of the supreme value and infallibility of their views. Of course eucalyptus trees never got accustomed to the Crimea and maize doesn't grow in the North, but the behavior of both of

these men continued to be determined by the nature of their delusions without adapting to reality.

The behavior of one of them [Stalin] was further aggravated by persecution mania and sadism—which led him to spend a lot of time “discovering” imaginary conspiracies, introducing draconian laws, organizing mass arrests, executions and tortures, and he was completely isolated in a world of his own.¹

It was not, I take it, Medvedev's point that either Stalin or Khrushchev was insane, though he presents some strong evidence to that effect against Stalin. Rather, he wished to demonstrate that any delusions he might have were puny and dwarfed by the mammoth ones of these two leaders. (He might have added the delusions of Lenin and Brezhnev to the others, but he had risked enough already. Even though Stalin and Khrushchev are dead and in some ways discredited, it is not possible to know in what ways they may be safely attacked. But Lenin is a sort of god, and Brezhnev is alive and in command.) But by calling attention to their delusions he does provide an angle from which to begin the assessment of Soviet Communism.

Marxist Delusions

The delusions of Soviet leaders arise from communist ideology. Marxism is a fantasy. Karl Marx had the delusion that he had discovered the secret of history. His

notion about the inevitable triumph of the proletariat is no more scientific than is the belief that the position of the planets controls our destiny. Yet his ideology provided the foundation for Lenin's delusion that the moment for the revolution had arrived in Russia, and from thence it should spread to the rest of the world. The delusion gave men the effrontery to attempt to impose the ideology on everyone within their power.

There is a crucial distinction between the delusions associated with insanity and those born of ideology. The insane person suffers from or is afflicted with his delusions. By contrast, it is those on whom ideological delusions are imposed that suffer. Marx did not suffer from his delusions, nor did Lenin, nor did Stalin, nor did Khrushchev, but a goodly portion of the peoples of the world have. Another distinction between ideological delusions and those of insanity is that the insane cannot function effectively in their environment. Ideologues, again, can function effectively, but they inhibit those on whom the ideology is imposed from acting very effectively.

The perverse effects of these delusions are to be accounted for by the assumptions and presumptions of the ideology. Karl Marx had what may best be described as a criminal mind. Not the mind of a petty thief,

of course. Not even the mind of those who are ordinarily thought of as directing organized crime. He had a cosmic criminal mind.

Theft, through Revolution

The crime which Marx contemplated was theft, the theft of all property used in the production and distribution of goods. The method by which the property was to be taken he called Revolution. The cohorts who would assist in this enterprise—the proletariat—would be rewarded by receiving the fruits of production. Thus far, his scheme paralleled just about any plan for carrying out a robbery. But Marx added two dimensions to theft or crime which they do not ordinarily have. First, he declared that this act of universal robbery—the World Revolution—was inevitable. Second, he conceived an ideology which was supposed to justify this vast thievery. He wove the whole into the framework of an anti-religious religion.

The universal plunder which Marx prescribed was, of course, to be only a prelude, a necessary prelude to universal justice, peace, harmony, well-being, and freedom. Man was to be emancipated from all the constraints that had kept his true nature from emerging. He was to be transformed, following upon the transformation of the economy, and

a new society would emerge. The eventual end would justify the plunderous means, though Marx held that the expropriation—plunder, thievery, robbery, or whatever it should be called—was also justified. Marx laid down no specifics for the emergence of this new society and new man. Presumably they would emerge naturally once the expropriation had been completed and the means of production were in the hands of the “workers.”

If theft can be justified, then all other crimes are justified thereby: torture, slavery, extortion, compulsion, murder, fraud, threats, assault, and every species of restraint. If stealing is justified, nay, required, by the laws of history, then all resistance to theft must be met with whatever force is necessary to overcome it. The force to overcome the resistance to the robbery must be as great as, no, greater than, all the energy which men will put forth to cling to their possessions.

Emphasis on Ownership

It is not simply that man has an affinity for property, though he has; it is even more the case that property has an affinity for man, so to speak. To put it more directly, property must be owned before it realizes its potential as property. Property without ownership is an abstraction, an abstraction waiting

for an owner to appear to give it character and fulfillment. To divest man of this relationship and prevent him from forming it runs counter to a metaphysical chemistry between man and property. If it were justified, then so would every assault upon man which would achieve it.

Universalized theft, or nationalized theft, as it has been experienced thus far, requires universalized force. This accounts for the massive state that emerged with Soviet Communism. There is, however, yet another reason for this swollen condition. It, too, has its roots in the nature of property. Property requires attention if it is to be productive. Divesting individuals of private property does not remove this requirement; instead, it aggravates it. By and large, the property that had been owned by individuals was taken over by the government in the Soviet Union. The management, or attempted management, of this property required a large number of bureaucrats. The combination of universalized force and bureaucratic management of property produced the massive state.

The Importance of Believing

The delusions that accompany communist ideology are manifold. They are delusions such as are necessary to believe it and try to

put it into practice. They are the delusions of the criminal mind writ large. Theft is a crime. So are all the acts done in support of theft. Marx conceived the most monstrous crime imaginable. Lenin and his followers carried out this crime within the Russian Empire and fostered its spread to the rest of the world. But it was necessary that they not think of it as a crime and desirable that people in general not think of it that way. To that end, the law which makes theft a crime must be held to be invalid; the moral code which supports the idea must be denied; the cultural inheritance which bolsters property and private rights must be negated; and the age old conceptions of human nature must be put at naught. All that is left in support of communism is human will, the will to believe, and the force that resides in its monopoly by government. The more closely the prescriptions of communist ideology are fulfilled, the more nearly impotent the populace. The more massive the state the more helpless the populace.

Therein lies the dilemma of communism and, indeed, of all socialism. Communism could only succeed by engaging the efforts, the wills, the energies, and the initiative of the population behind it. But these are held in thrall by the massive state, by the ubiquitous police, by the swollen bureaucracy,

and by the requirement of ideological conformity. The populace could only become effective by the reduction of the state and the restoration of freedom. Every step in that direction is a retreat from communism. The dilemma cannot be resolved; it is inherent in communism. The dilemma arose from the delusions of communism.

Reforming Human Nature

One of the primary delusions of communism is that human nature can be transformed so as to remove the pursuit of self-interest from human behavior. It should not be necessary to turn to experience and history to learn this. The contemplation of man and the condition in which he finds himself should be sufficient for discovering the essentiality of his pursuit of self-interest.

Human consciousness is such that only the individual concerned is aware of his needs and wants and what priorities they have. Life on this earth is of a character that requires that in many instances he must look after himself. He must look before he crosses the street lest he be run over. He must take care what he puts in his mouth lest he ingest some harmful substance. Even roses have thorns, and he who would pick them must be careful that he not be stuck by them.

The amounts of goods and ser-

vices available are limited, but our desires for them are not. Hence, we contend or compete for them, and each does well to protect his own interest in the trades that take place. Indeed, it is difficult to grasp how any trade, sale, or purchase could be made if the individuals were not acting in their interest. A disinterested purchase would be one made without regard to what was wanted, the quantity and quality of the goods, or what priorities might exist about acquiring them.

Root Out Self-Interest

A second delusion of communism is that removing the cultural supports to the individual would result in rooting out self-interest. On the contrary, the same culture which supports the individual acts to direct, limit, restrain, and civilize his pursuit of self-interest. Civilized people recognize and observe limits on their pursuit of self-interest. Good manners require that the individual take his place in line, that he defer to others in many cases, and that he respect the equal rights of others. A civilized culture even as it protects the individual in his pursuits inculcates the belief that there are occasions when the individual should deny himself in order to aid and care for others.

The family as a unit is especially dependent upon parental restraint in asserting their interests in order

to provide for the children and those unable to take care of themselves. It is the duty of the parents as well to inhibit their children when they rambunctiously pursue their interests, in the interest of family harmony and peace in the community. Community, too, depends upon apparently selfless acts by its members in defense against aggressors and to rescue those who are endangered.

But none of this need be in derogation of the individual's pursuit of his own self-interest. One of the great missions of culture and civilization is to provide a peaceful and harmonious framework within which the individual can seek his own constructively. To destroy the culture because it supports the individual will not alter the individual's determination to pursue his self-interest; it will only remove the restraints upon it. The reason for this should be clear. Our pursuit of self-interest is not culturally induced; it arises from our nature and the nature of conditions within which we find ourselves. Communism delusively pits itself against culture when its true enemy is human nature.

Reliance on Force

A third delusion is that force, or government, can be used effectively to transform human nature and produce a peaceful and productive

society. So far as we know, human nature cannot be changed, but human behavior can be, at least to some extent. But force is only a minor adjunct in successful efforts to change human behavior. It can be used to punish and inhibit wrongdoing, but it is the weakest of all means for producing rightdoing. Rightdoing proceeds from and engages the best efforts of the wills of individuals. Force can no doubt produce a modicum of obedience, but it will usually be minimal and will tend to be limited even further by its failure to engage the constructive ingenuity of the ones complying.

From these basic delusions follow the mass of delusions by which the Soviet Union has been misruled for over sixty years now.

It should not be necessary, as I say, to resort to historical evidence to validate the above observations. But if it is, the record of the Soviet Union provides a cornucopia of supporting evidence.

Breakdowns in Production

An early visitor to the Soviet Union proclaimed, in a burst of enthusiasm: "I have seen the future, and it works." Those who have examined the situation over a longer period of time and more thoroughly would be more likely to say: "I have seen the future of Communism, and not even the plumbing works."

That is, however, but a poor joke and a half-truth. Surely, there are water closets in the Soviet Union that work, at least some of the time.

More important, if we should follow this lead it would take us away from, not toward, the greatest failures of Soviet Communism. It would take us into the realm of that pseudo-science, macro-economics, where the greatest truth we would be able to discover is that statistics can be used to deceive. There is no comparison between goods produced by decree and those produced to supply wants registered in the market. Goods produced by decree are qualitatively inferior; they are orphans in the market place, seeking some kindhearted soul who will adopt them. Macro-economics can only deal with them by declaring them the equal of all other similar goods, for only thus can they be reduced to statistics. Since they are not, the result can only be a deception.

Colossal Failures

Even so, it needs to be affirmed that Soviet Communism has had signal economic failures. The Soviet Union inherited one of the most productive grain-producing areas in the world and succeeded so well by collectivizing and introducing state farms that even by opening millions of acres of new land it became a grain-deficit land. Central planning

of industrial activity is a recognized failure today, even by many Soviet economists. In fact, a multi-volumned encyclopedia on how not to produce goods could be compiled from the Soviet experience. A "successful" plant manager is one who can get a low quota of production, have a very large stockpile of parts he will need, and manage to produce a sufficient quantity of shoddy goods to exceed his quota.

One of the reasons for the failure of centralized planning coupled with an atmosphere of fear comes out in the story below. It was told by a man who had been a Soviet inspector.

As inspector I once arrived at a plant which was supposed to have delivered mining machines, but did not do it. When I entered the plant premises, I saw that the machines were piled up all over the place, but they were all unfinished. I asked what was going on. The director gave evasive answers. Finally, when the big crowd surrounding us had disappeared, he called me to his office.

There, the story came out. It seems that the specifications called for the machines to be painted with red oil-resistant varnish. But the only red varnish that he had was not oil-resistant. He had green oil-resistant varnish, but was afraid that if he used this in violation of instructions he would get eight years in prison. The inspector knew the machines were badly needed, was certain that

whether they were painted red or green could make little difference, but he too feared a prison sentence should he authorize the change. He did cable the ministry hoping for a quick decision in favor of using the green varnish.

But it took unusually long. Apparently they did not want to take any chances at the ministry either, and they wanted to cover themselves. Finally I received permission. I put this cablegram from the ministry in my pocket and kept it for the rest of my life, and signed the note allowing the use of the green paint. . . .²

The infelicities of Soviet production may be best summed up by this Russian joke related by John Gunther:

One Russian tells another that the Soviet authorities have perfected an intricate atomic bomb that will fit into a suitcase, and that this will one day be delivered to a target like New York. The second Russian replies, "Impossible. Where would anybody get a suitcase?"³

Serving the Rulers

But the greatest failures of Soviet Communism have not been economic. Indeed, such successes as it has had, aside from the exportation of ideology, have been quantitative and economic. Large universities have been conceived and built, a modicum of education made universally available to the young, numerous physicians trained, whole

new cities brought into being, hydroelectric dams built, and so on.

Political power has been brought to bear so as to produce what was most wanted by those who ruled. The priorities of the political authorities have sooner or later been met, though it would be an error to conceive of this having been done economically. It has been done at horrendously excessive cost in lives, suffering, deprivation, and wasted natural resources. Indeed, in the absence of a free market, the Soviet rulers have no way of determining what it should cost to produce goods. Still, they have produced huge quantities of generally inferior goods.

Social and Spiritual

The greatest failures of Soviet Communism are social and spiritual. Many of these failures should be the occasion for rejoicing around the world. None can rejoice, of course, about the persecution, the terror, the suffering, and the hardships of the peoples of the Russian Empire. They have endured for many years now an occupation, as it were, by an alien force. That alien force has been animated by Communist ideology and includes all who have attempted to impose their will on the Russian people in its name.

That alien force launched the most massive assault upon the

human spirit, upon individuality, upon religion, upon society, and upon the family that the world has ever known. This assault has been carried out by the assembled power of a totalitarian state, carried out by all the devices conceivable to a criminal mind: brutal murder, torture, propaganda, threats, exile, mass starvation, and incomparable terror. A gigantic effort has been made to wipe out the heritage of a people, to destroy the ancient bonds of community, and to break peoples under the wheel of the state. All who have any fellow feeling for others should view this action with sorrow and compassion for the peoples who thus suffer.

The Human Spirit Survives

Nonetheless, there is occasion for rejoicing. Word comes to us from the Russian people that the human spirit has not been crushed. It is wondrously alive in the vibrant eyes and stern personality of Aleksandr Solzhenitsyn and, no doubt, in millions of others.

This is not to say that the unleashing of such might for such purposes against a people has not produced gaping wounds and ugly scars, so to speak. Surely it has. Many of the bonds of community have indeed been broken. The family has been sorely tried by informing, by the ease of divorce, by the necessity for women to do heavy

work. Institutional religion has been made largely subservient to the state, where it has been permitted to survive. Society has lost control over all institutions by which it may function. Propaganda has taken a heavy toll upon mental development and understanding. Fear has driven frank conversation into nooks and crannies.

But human nature has survived and endured. The Soviet regime has not made a dent in the determination of the Russian people to pursue their self-interest. Farmers pursue their self-interest vigorously by avidly cultivating the little plots of land from which the government allows them to keep the produce. People are ever on the alert to hear of some scarce item available in the stores, and scurry out to purchase it when the word reaches them. The pursuit of self-interest by Party members is almost palpable, but they are distinguished from the general populace only in the corrupt methods available to them.

The Russian people have no intention of committing suicide, which is what the abandonment of self-interest entails. They may be hampered by the rules and regulations in their pursuit of it, but they seek it as certainly as an alcoholic sought booze in America during Prohibition. Those who value life, then, may rejoice that Russians are still pursuing their self-interest.

Society Suffers

The wound is nowhere deeper and the scars nowhere uglier than upon what for a better word we call society in the Soviet Union. In the vulgar language of today, all activity, life and relationships are divided into a public and a private sector. Where people are moderately free, there are actually several realms: the realm of government, the realm of society, and the realm of the individual that is personal and private. These are not exclusive spheres; they are rather complementary, interdependent, and interacting realms.

Society encompasses that realm of social relationships that are largely voluntary, the realm of manners, customs, traditions, morality, voluntary institutions, and ways by which individuals live fruitfully and peacefully with one another. The cultural heritage is activated and carried on largely by society. It is the arena of influence and persuasion rather than of force.

It may be correct to refer to a "public" and "private" sector in the Soviet Union, though the public sector has been elephantized and the private sector dwarfed. But society has been virtually destroyed. Society depends upon widespread trust, confidence, and general good will, as well as a considerable measure of freedom. These have been all but wiped out in

the Soviet Union. Trust and good will can hardly survive the informing of children on parents, of neighbor upon neighbor, of husband upon wife: all of which has been fostered and encouraged, even required, by the Soviet system. They can hardly survive, either, the constant surveillance, the hidden microphones, the keeping of extensive dossiers by the police, the listening in on telephone conversations, and the opening of mail: all common practice.

Society needs institutions which it largely controls: churches, clubs, libraries, markets, hospitals, and various sorts of voluntary associations. Where any of these have been permitted in the Soviet Union, they are under the thumb of the Party which, in turn, is an instrument of the state. The lines of communication on which society depends are clogged by a massive state.

Two developments have taken place in the absence of society. One is a crudeness of relationships in general. Clerks are usually rude and harsh of manner. Hedrick Smith notes that there is a Russian manner that comes across in "public as coarse indifference, passive fatalism, and pushy discourtesy. Western visitors have commented on the glum, shuttered faces of Russian street crowds, and the brusque, negative surliness of service people. In our early months, I remember

nodding at Russians, or saying hello if their eyes met mine at close range in public but all I ever got in return was an impassive stare."⁴

This coarseness of social relations evinces itself in yet another way, in busybodiness, which has no doubt been promoted by Communism. Leona Schechter, who spent several years in Moscow, gives several examples of it. Here is one. She had taken one of her children to school but had neglected to dress very warmly against the cold:

... Just as we were about to go in the school door, a redhaired Russian lady ... stopped to harangue me about the way I was dressed. I told her I didn't want to get Barney into the building late so she let me go, but she was waiting when I came out. She yelled at me that I was stupid to come out without boots. She warned that I would get very sick if I didn't dress properly. I stood listening to her lecture, freezing, wanting nothing so much as to run home and warm my feet. She believed she was doing her socialist duty.⁵

Socialist duty it might be, but sociable it was not.

Rebuilding Society through Private Circles

The other development is the rudimentary rebuilding of society in tightly knit private circles. Friends gather in the kitchens—about the only possible meeting place—of private homes, reasonably safe

from informers, from hidden microphones, and from the ubiquitous police. There, spontaneous and free communication can take place. The Russians are then quite different, according to Smith: "But in private, within a trusted circle, usually the family and close friends but often embracing new acquaintances very quickly if some personal chord of empathy is touched, they are among the warmest, most cheerful, generous, emotional and overwhelmingly hospitable people on earth."⁶

There is some evidence that following the relaxation of the rigidity of Soviet regime in the 1960's these circles have expanded. Manuscripts of works that the regime will not permit to be published circulate in what is called *samzidat* editions (privately copied). Groups of people gather to view paintings that cannot get a showing in governmentally controlled museums. Concerts are even performed in what must be thought of as private. The account that Zhores and Roy Medvedev give of friends and colleagues who came to the aid of Zhores when he was locked up in a mental institution indicates that for some, at least, a considerable society is forming. The Communists have not succeeded, then, in destroying the old society and building a new one. Society has just gone underground, awaiting the opportunity, the

freedom, to emerge once again in full flower.

Perhaps the most dramatic failure of the Soviet Communists, however, has been their inability to wipe out religion. Decades of atheistic propaganda, the widespread closing of churches, the denial of general access to means for study, worship, and religious training have failed to accomplish the sought-after result. Of course, the assault on religion has done great damage. Leona Schechter gives this foreboding account from one who had experienced it:

But Pyotr with his sad, sensitive blue eyes and Christlike beard decried even the Revolution. For the first time we heard him speak from the depths of his spirit. He appealed for the return of the Christian values of the Russian Orthodox Church. "We were better off when we could appeal to human values, the values of the church. Our lives were richer and we had the excitement and mystery of holy days. We had a sense of man. Now all we have are empty slogans and corruption. The Revolution destroyed Christianity in Russia and it also destroyed the Russian spirit."⁷

It did not, of course, destroy Christianity or the Russian spirit. It did largely destroy the social and communal aspect of Christianity in Russia, driving it underground, and depriving public life of its redeeming values.

But religion is alive in Russia. An

American correspondent was asked by a Russian acquaintance if he believed in God. He indicated that he did not. "Just wait," the Russian replied, "You have not lived in Russia long enough yet." That is hyperbole, to be sure, for not all Russians believe in God, but the point is well taken nonetheless. There is by most accounts the indication of a religious resurgence in Russia. The authorities long held that religion was dying out, that it was just a relic, and that only old women went to church. But an interesting phenomenon can now be reported: as one generation of old women dies out, another takes their place.

Covert Christianity

Those who attend church are mainly the ones who have no hope of gaining position or advantage from the Soviet powers, but even those who do have such hopes can practice their religion privately, and some do. Millions openly profess Christianity; an untold number of others await the day when they may do so.

The Schechters visited a museum in a remote province of the Soviet Union. It was next to the site of an ancient Christian church, destroyed by the Arabs in the tenth century. "Until recently no one knew what the original church looked like, but a traveler found a bas relief of it in

Paris. Since then new buildings in the center of Yerevan have followed the lines of the church's architecture. Bits of colored mosaic and broken stone pieces left after the Arabs . . . are sorted and waiting for the time when the church can be rebuilt."⁸

That is surely a parable of religion in Russia; it exists in carefully preserved bits and pieces awaiting the time when the church can be rebuilt.

A Communist Paradox

Soviet Communism has failed; it has failed to provide people with goods and services economically and competitively; it has failed to root out self-interest; it has failed significantly to alter human nature; it has failed to build a new society; it has failed to crush religion. It has succeeded in erecting a massive state which has imposed an oppressive system on the Russian peoples. Undergirding this system is Communist ideology.

Herein lies a paradox. The Soviet system is underpinned by an ideology which none living under it may believe. True, the propaganda machine grinds out the same old phrases. Party members attend the interminable sessions on the ideology and the Party line. Those called upon to do so will mouth the correct words and sentences. But there is much speculation that no

one believes what he is saying. Hedrick Smith reports this conversation:

"You have to go to these political meetings but nobody listens," said a plump Leningrad schoolteacher in her late thirties. . . . "When the director of our school gives the lecture, he tries to make it interesting. He's a nice man—a Party member but a nice man. But everyone is bored and nobody believes it."

"What about the person giving the lecture?" Ann asked her.

"Even he doesn't believe what he's saying. The older generation really believed in Lenin and they felt this was the way to build a new society. But my generation doesn't believe it at all. We know it's false."⁹

Some even doubt that the members of the politburo any longer believe in the ideology.¹⁰

What Sustains the Power?

Supposing this to be substantially true, what keeps Soviet Communism in power, then? Many things, no doubt, some obvious, some not so obvious. Soviet Communism has inertia going for it. Its leaders hold the power over a massive state that is well established. The populace is impotent, lacking either the means to contend with it or effective communication with those who may oppose it. Though the terror has abated in recent years, the Soviet state is still a fear-

ful thing, and many still remember the harsh and prolonged terror of the Stalin years.

The Soviet Union has recognition from the ruling powers of the world. Two things more, at the least, sustain it. One is the idea that has the world in its grip. The Soviet Union represents the premier effort to concert all efforts behind the achievement of felicity on this earth. Those who are advancing what they believe to be a triumphant idea cannot, by and large, ever have it known or accepted that the idea has failed in Russia. The fall of Communism in Russia would have a devastating impact on the idea; it must not be permitted to happen.

The other thing that keeps Soviet Communism going is fear of the alternative. Communism has ever depended upon a hatred of those whom it denominates as its enemies. All its propaganda does not succeed in making Communism loved, but it has much greater success in making enemies hated. "Capitalism" is, of course, the putative enemy of Communism, but it invented an enemy which was the personification of all evil. The generic name of that enemy is "fascism." Fascism did, perhaps does, exist, of course, but not fascism as the Communist Party

line would have it conceived, not the fascism which was the diametric opposite of communism. On the contrary, fascism was a species of socialism, revolutionary socialism even, bearing the closest resemblance of all to Marxism-Leninism.

For the examination of this supposed enemy of communism, we turn now for a look at Nazi Germany. ☉

Next: 9. *Germany: Ideology Con- tends for Power.*

—FOOTNOTES—

¹Zhores A. Medvedev and Roy A. Medvedev, *A Question of Madness* (New York: Alfred A. Knopf, 1971), pp. 183-84.

²David Granick, "Plant Managers and Their Overseers," in Joseph L. Noguee, *Man, State, and Society in the Soviet Union* (New York: Praeger, 1972), p. 198.

³John Gunther, *Inside Russia Today* (New York: Harper & Row, 1962, rev. ed.), p. 76.

⁴Hedrick Smith, *The Russians* (New York: Quadrangle, 1976), p. 104.

⁵Leona and Jerrold Schechter, *et al.*, *An American Family in Moscow* (Boston: Little, Brown and Co., 1975), p. 104.

⁶Smith, *op. cit.*, p. 104.

⁷Schechter and Schechter, *op. cit.*, pp. 235-36.

⁸*Ibid.*, p. 372.

⁹Smith, *op. cit.*, p. 288.

¹⁰*Ibid.*, p. 292.

Who



Shall
Decide?

THERE'S A DIFFERENCE between looking to another for enlightenment, and letting him make your decisions for you. At least, I think that is the message of the book, *If You Meet the Buddha on the Road, Kill Him!* by psychotherapist Sheldon B. Kopp.¹ Never abdicate to a mentor the responsibility to make your decisions or solve your problems.

Shouldering responsibility for self and family is no easy task. It may seem more comfortable to lean on others or blame them for one's own shortcomings. But the road to maturity and peace of mind is through self-responsibility. Dr.

Kopp's advice is to kill the temptation to lean on others—that the better path to mental health is for each person to rely upon the resources within himself.

To face up to this matter realistically today is to find the road practically blocked by a giant decision-maker—namely, big government. And the more decisions it makes for us, the more evident is our tendency to turn to it with our problems. So, let's examine some of the decisions or solutions government has rendered for us.

How, for example, has government relieved each of us of the responsibility to save and provide for his own old age? It is now being revealed that the security blanket of Social Security is not based on savings at all. The payroll deductions withheld from you and

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

¹(Science and Behavior Books, 1972; Bantam Books, 1976.)

matched by your employer have all been spent, just as any other tax collected by government. Your security rests upon the willingness of younger taxpayers to cover your needs—a prospect dimmed by accelerating inflation and increasing longevity.

This is not your fault, you say. The government simply assumed your responsibility without asking you, or so it seems. What could you, just one person, do about it when the law was under consideration? Chances are that you would have then and would now join your neighbors and welcome such an opportunity to unbuckle burdens and hand them over to government. It's easy to blame "the neighbors" for the way Social Security has gone. But the hard fact remains that responsibility—or the lack of it—is a personal matter.

Or, consider how government has relieved us of responsibility for "Johnny's" education, with our growing complaint to the neighbors that "Johnny can't read." When will we admit to ourselves that a child's education is a private, personal, parental responsibility—you responsible for your child, I for mine?

Our decision-making government is now "volunteering" to solve our energy crises, heat our homes, fuel our industries. Cleverly concealed is

the role it played in creating such problems, with its regulation and control of prices and production of gas, oil, coal, electricity. Set a ceiling price of \$25 for mink coats, and there will be none produced for sale. Yet this is the sort of decision we may expect the government to make for us if we ask it to assume responsibility for our energy problems. The result: total conservation—no energy available to use.


A government official proposed recently a law to hold hospital charges to a certain level. This should appeal to patients only if they seek deteriorating hospital service and care. The proposal calls to mind government entry some years ago into decisions concerning medical drugs—matters long handled quite satisfactorily and voluntarily among drug manufacturers, doctors, and patients. What is the result of the decisions by government? The United States, with the factory guard in charge of drug research, is now surpassed by many other countries in the field of new drug development and use. The final step in this surrender of personal responsibility would be to displace the private doctor by making him an arm of the government, a police officer as one's physician!

We see in the field of transportation the astounding damage government can do when it takes

charge for us. It has wrecked almost every railroad in the country, making it hazardous to travel or ship by rail. But all for our own good, understand! One shudders to think what full government control of air transport could achieve. The horse and wagon may indeed be the wave of the future.

Other examples of the failure of government planning abound, but let one more suffice here: welfare for low-income families. Before this became government's responsibili-

ty, families climbed out of poverty and stood proudly on their determination and action to improve their situation. Government welfare condemns its recipients to remain poor and helpless into the third and fourth generation—at least. Who knows how much longer?

For an improved state of mind—indeed for the health of the nation—let us kill the temptation to yield to some master those decisions we ought to make for ourselves. 

Problems and Solutions

THE MARKET is a problem-solving device. It moves from problem to solution. No money is to be made in creating problems for people—only in solutions to their problems—ways to make their lives easier. The market moves from problem to solution to profit. Where there is no solution, there is no profit. The only hindrance to its operation is dishonesty.

The government's movement is from problem to problem. Its only method of removing a problem is a dictate, fine or imprisonment. Government serves as a necessary imposition on those who have displayed a determination to impose on the rights, lives, liberties and property of society's peaceful citizens.

When government and market functions overlap, solutions are lost and new problems created. Any time the government imposes on honest actions instead of prohibiting dishonest ones the problem, in a word, is dictatorship.

The market is in daily touch with people in all kinds of problem-solving ways. The government has no place in the daily lives of peaceful people.

Laws, courts and prisons are everyday functions of the government. All movement is through force.

Products and services are the everyday functions of the market. All movement is through choice.

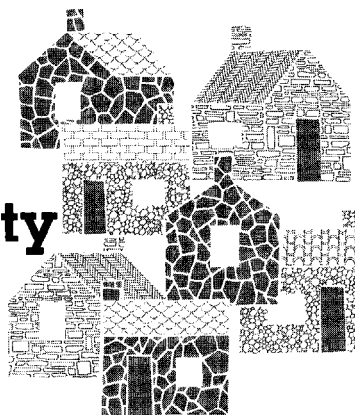
IDEAS ON



LIBERTY

The Texture of Society

Ridgway K. Foley, Jr.



SOCIETY refers to an interrelationship or association between human beings. In its true sense, the concept postulates a sharing, exchanging, voluntary kind of fraternity, although in a convoluted sense the term has been employed as synonymous with the coercive force of the state. Yet the state differs markedly from society: the former remains forceful, all-inclusive, difficult to leave, involuntary, as compared to the peaceful, dynamic, mobile and voluntary structure of society. The state encompasses a society; it does not form one.

Society exists by reason of the need for, and desirability of, human intercourse and exchange—ex-

change of goods, exchange of ideas, exchange of values, exchange of warmth and understanding. It developed because of the nature of man, not in spite of his essence. Man, by nature, exhibits a need for relationships with other human beings; he does not tolerate alienation well. To be certain, civilization bears witness to an occasional hermit, to the self-reliant mountain men of the American west, but by and large mankind produces creatures who interact with their fellows in such a manner as to produce a higher, more creative life.

Despite the absence of certain knowledge, one can conjecture the beginnings of society in the remote past. The urge to reproduce impelled mating and the family unit; the need for the communal warmth of social exchange occasioned

Mr. Foley, a partner in Souther, Spaulding, Kinsey, Williamson & Schwabe, practices law in Portland, Oregon.

groupings of families into tribes. Two basic drives, fundamental to the nature of mankind, fostered the genesis of society and state: (1) the cluster of persons enabled the embryonic group to repel intruders and predators; (2) the assembly of persons fostered trade of ideas and products in an elementary kind of specialization and division of labor. The growth of knowledge forged ever more complexities into the civilization, but these two basic drives still undergird society.

Enter, The State

Couple this simplified model with another element of essential human nature, the tendency to power, and one immediately perceives the early intertwining of society and state. The state gained ascendancy, in rudimentary form, when the strongest in the encampment exerted their strength to compel or restrain the actions of others within the clan. Power and the lust to might pre-existed the relatively recent concept of the state; the philosophy of the state supplied a justification for the use of force which inheres in the sinister side of all human creatures.

The state, in its elemental configuration, encompassed some persons not sure they wanted it. Man became chained to the abstraction of state by birth, family, residence, annexation, or compelled fealty,

rather than by choice or reason. One does not volunteer for citizenship: the law thrusts that status upon individuals because they happen to inhabit a given territory, or because of their parentage, or by force of arms. Moreover, the law imposes obligations of allegiance and support upon unwilling residents and often renders severance difficult and impractical.

One cannot disavow allegiance to most states without actual emigration and probable forfeiture of basic human rights to life, liberty, property and choice. And migration to foreign shores often carries with it the concomitant command of that state to offer obeisance or forfeit rights. In short, statehood imposes a leash upon a citizenry, willing or unwilling to accept fetters in varying degrees, with legally-sanctioned options to lengthen or shorten the restraint.

Society vs. State

Contrast society, as that term is accorded understanding. Society should not constrain individual members unwilling to meet its demands. It depends upon voluntary association, not coerced allegiance to outmoded symbols or irrational codes. One lives as a citizen because of fear of reprisal should he disavow citizenship: he fears forfeiture of rights or deportation. One lives as a member of socie-

ty because he chooses to intermingle with others in that setting: he computes the value he will derive from his association and determines to pay the cost attached to his choice. He may opt out of society without legal penalty, although he may incur the social result of ostracism and alienation. He can adopt, or adapt to, a new or different society without paying dues or saluting a flag or mouthing a creed.

Mark well that society does not offer a free ride; it only lacks (or should lack) legal restraints normally attendant to a coercive state. One may wish to join in society yet be deprived of that enjoyment by the free choice of other members. A cannot insinuate himself into the society of XYZ unless X, or Y, or Z, or any or all of them, accept him, in whole or in part. The freedom to enter society must work identically to all visitors: each receives like helpings of free choice. Free choice means liberty for all to assess value and to choose relationships. Nothing could be more incompatible with liberty and dissonant with reality than forced friendship.

Something in Common

Friendship, or any human relationship, depends in large part upon the perception of the parties and the linkage of their values. One can enter into a friendship in a real

sense, although separated by miles of space and eons of time, but no meaningful relationship develops in the absence of interwoven values. I think I would count myself as a friend of Leonard Read, although a continent separates our physical persons, and I believe that I possess a bond with Frederic Bastiat, although he perished almost a century before my birth. In each case our values link us together despite physical separation. The ancient truth residing in the saying, "we have something in common" permeates any analysis of friendship and society. Circumstances can place individuals in close proximity, prompting an observer to predict a glowing relationship and inducing surprise when no such affinity develops. The reason: nearness, without a sharing of values, results in disinterest.

This truth explodes a common fallacy underlying much of the misuse of law so prevalent today: the employment of organized force as a tool to implement social engineering schemes, euphemistically termed "achieving social justice." Social justice serves to disguise the forceful intervention by one man or group of men into the lives of others; those occupying an ascendant political or legal position impose their subjective values upon others who would prefer another course of conduct. Thus analyzed,

“social justice” fails to comport with true justice, respect for free choice;¹ indeed, the phrase provides an apt example of a contradiction in terms—justice focuses upon individual action, social justice upon concerted coercive conduct.

Nonetheless, the proponents of social architecture persist in denying human nature when it conflicts with their particular dreams and schemes. Thus come programs to bus children away from their neighborhoods, to “integrate” swimming pools, to deny “necessary” licensure to private clubs which maintain a selective membership, to compel hiring quotas² in higher educational institutions, and a host of disciplinary or affirmative action activities. Each of these plans involves goals of varying degrees of laudability: man should treat other men humanely, as creatures of inherent worth, not as objects to be used.

Yet, the social engineers fall prey to the very quality they decry in others. In their zeal to assure social justice they treat all persons, the privileged as well as the coerced, as unworthy of merit unless they applaud (or at least willingly participate in) the master design. In their very effort to guarantee a fair treatment of people as people, they in fact deal with the noncomplying citizen, the dissenter, as an object.³

Legislation cannot guarantee

friendship or moral treatment in the absence of common values, any more than it can turn iron into gold, or men into women. Human nature establishes the criteria and the perimeters of social and societal interaction; compulsion induces, at best, an uneasy truce, and at worst, internecine warfare. Human beings dislike being forced against their will into a course of action: note the age-old tendency of the child to resist parental suggestion as to friendship or mating; indeed, as many parents have discovered to their dismay, filial disparagement of a prospective suitor or comrade tends to produce a result directly contrary to the desired goal, driving the child and compatriot more closely together. Coercive legislative acts produce a similar effect, resulting in the alienation of persons or groups which, if left alone, might individually discern a confluence of values.

A Voluntary Aggregate

Society, then, in final analysis, must represent a linkage of individual actors who share common values. Since friendship and social intercourse necessarily flow from voluntary action, society, properly comprehended, exists as a voluntary aggregate. Formed to perform mutually desirable tasks and to facilitate a willing exchange of goods, services, and ideas, the con-

cept of society serves its purpose adequately when it allows the melding of the subjective values of each of its participants.

State and society coexist in a sort of ambivalent condition, an ambiguity occasioned in large part by the inaccurate employment of these discrete terms as synonymous. The state represents the political monopoly of organized force; society consists of a voluntary aggregate of individuals within the boundaries of the state. A state may contain several societies; a society receives no necessary hindrance from state territorial divisions. The two concepts lack necessary identity in space, in time, and in content.

However, state and society each describe imperative functions in relation to human existence and action. Accurately defined and rationally analyzed, state and society complement each other and reflect human nature. By nature, man possesses conflicting drives: to create and to coerce. Society fosters the creative nature, while the state constrains the coercive tendency. Creation to the zenith of individual ability is patently impossible in a world of predators; one finds it difficult to concentrate upon productive activities when he must maintain a constant wariness for those who would prey upon his person or effects. The state, limited to the du-

ty of resisting aggression and settling disputes which arise between inhabitants, makes possible the voluntary interchange which characterizes society.

Texture and an Apparent Dichotomy

Societies possess textures, like bread or steel. These textures serve to describe the human relations which permeate the particular society under discussion. Such descriptive textures appear in subtle, almost infinite, gradations on a spectrum arrayed from the free or open society on the right to the restricted or closed society on the left. The amount of human creativity, happiness, and meaning depends upon the particular position of the society in that spectrum. Individual man enjoys greater well-being the more nearly his particular societal association approaches the ideal of openness or freedom.

A cursory glance reveals an apparent blurring of the terms in this description of the texture of society. By apt definition, society represents a voluntary or open aggregate. Yet this ideal definition suffers from the extravagances of the state which intrudes into social affairs by means of its sole attribute: force. Society remains free and open so long as the state retains its natural and appropriate character as policeman and judge;

society becomes increasingly closed as the state assumes such additional tasks as planner, social engineer or distributor of property. These adjunct functions destroy the symmetry of the state/society essence and so pervert the meaning of "society" as to require the use of descriptive adjectives (open, closed) to illuminate and convey the speaker's meaning.

The Essence of the Free Society

One essential attribute distinguishes the free society from a closed society: a free society rests on contract, not coercion. Men voluntarily live in proximity and in relative harmony; they exchange products as their needs dictate; they receive the benefits of interpersonal relationships; they rest their bargains upon the binding nature of human promises, intentionally made.

The harmonious nature of the free society should not delude one into belief in the existence of some earthly Utopia. Friction follows individuals, be it internally caused by man's fallibility, or externally occasioned by the interaction with neighbors (resulting, incidentally, from the same root cause). This friction emanates from the necessary clash of subjective values held by countless human actors: each unique individual consists of differing ideas, talents, and ambitions; none

of us enjoys total identity in essence. These differences inevitably come into conflict with one another; A prefers a sylvan glade, B a brick warehouse; the same plot of ground cannot be both at the same time.

The vitality of the free society derives not from the nonexistence of disputes but rather from the means of adjusting individual differences of opinion. The clash of subjective values means adjustment and accommodation, not warfare and bloodshed. People living in a free society tend to settle most disputes voluntarily and in an amiable fashion; those few cases which cannot be compromised by the parties reach private arbitration or public halls of justice. And, most members of society willingly abide by the final decision of the private arbitration or public judge, even if they feel genuine dissatisfaction with the results.

The strength of the free society appears in the nature of choice under that system. A closed society constricts choice to the limits of the minds of a relatively few persons; an open society imposes no barrier to the evolution of the human character. Constriction in the closed society develops in two ways.

First, the political system employs coercion to inflict the subjective values (and the choices emanating therefrom) of A upon B,

of the planner upon the landowner, of the social architect upon the citizen. Thus, at least in part, the closed or limited society moves in the direction of A's choices alone whereas the open society receives the alternatives derived from A+B choices. Quantitatively fewer choices result even if A is far superior (the usual justification) to B in his choice-making ability because A cannot make B's choices better than B himself.⁴ As a practical matter, history and empirical fact teach all but the most obtuse among us that political A's do not represent the highest and best brainpower in any event: those who base their philosophy on the concept of *power* seldom if ever comprehend its antithesis: moral *choice*.

Second, the remaining choices and talents deteriorate qualitatively in a restricted society. Where A usurps B's right to choose in one field, B's creativity falters in other arenas: the welfare recipient becomes so befogged by his constant dole that he loses all desire and ability to become productive once again; the homeowner restricted in his land use by the county commissioners becomes chary of "rocking the boat," of calling attention to himself, for fear of political reprisal; the brilliant creator of widgets raked by the burden of excessive taxation finds it more personally profitable to turn his business over

to the government and take a vacation instead of continuing his creative efforts for insufficient return.

How the Market Functions

By some natural but inexplicable phenomenon, the intertwining of thousands of subjective values of millions of distinct human actors produces better material and social results than all the planning of all social engineers or government administrators in history.⁵ The very friction which afflicts any society, free or closed, lubricates the market mechanism of the free society. The market—a voluntary agency of the aggregate—settles most disputes, and it decides them in such a manner that abrasion vanishes, creativity increases, and a better (more goods, services, and ideas at a lower unit cost) end result obtains.

One may find it instructive to ponder just how the market mechanism adjusts differences and employs the scarce resources of the earth and the fleeting resources of the human mind and body. Every exchange requires a cost: no one receives something for nothing; the concept "exchange" by definition describes a transfer from A to B with a related passage of something in return from B to A.

In the open society, each actor evaluates his own needs and desires and measures the cost he is willing

"A prerequisite for the appearance of capital is the assurance that the producer can retain for himself all he produces in the way of savings. If this excess of production over consumption is regularly taken from him, by robbers or tax collectors or the elements, the tendency is to produce no more than can be consumed immediately. In that case, capital tends to disappear, and with the disappearance of capital, production declines, and so does man's standard of living.

From this fact we can deduce another law of nature: that security in the possession and enjoyment of the fruit of one's labor is a necessary condition for capital accumulation. Putting it another way, where private property is abolished, capital tends to disappear and production comes tumbling after. This law explains why slaves are poor producers and why a society in which slavery is practiced is a poor society. It also gives the lie to the promise of socialism in all its forms: where private property is denied, there you will find austerity rather than a functioning exchange economy."

Frank Chodorov, "Free Will and the Market Place"

to pay for the particular item sought. The actor, more truthfully than any other person, can determine his subjective values, his internal scale of preferences; he reveals this preference in the manner in which he employs his life in the market, in many instances in a much more articulate manner than if he had been asked whether he preferred coffee or cocoa. That which each person trades (property, created value) represents an extension of his very life; the trade reveals the importance of life to the actor and the concordance of trades in society more nearly depicts the amalgamation of subjective values in that society than can be achieved by any other method.

The market mechanism may be

described as "dollar democracy." The individual trades his created value for a medium of exchange—the dollar—which forms his stockpile of stored labor or trade goods. He votes on every occasion when he spends his dollars for some good or service or idea. The vote does not perform a narrow choice between two or three political parties, each promising to use force (the state) to achieve given ends. Instead, the user chooses between (votes for or against) alternatives beyond measure: he not only chooses whether to spend his dollar for Leslie Salt or Morton's Salt, but whether to spend his dollar for salt, or sugar, or soybeans, or army surplus, or sweaters, or whether to spend it at all or to save it (invest it

in the production of capital or consumer goods for a future return of greater value to him). Again, the dollar vote seems to reflect subjective values more accurately than a political vote: even those who opt for all manner of coercive national spending orgies seem likely to be wise shoppers at the supermarket.

Given the flexibility of the market, open societies reveal an open, porous texture where ideas and products flow freely and without discord. It produces better choices and a greater number of choices. It attends to the unanticipated need and the unexpected result, free from the stultifying, smothering tendency of the constricted alternatives of a closed society which presents a shiny if brittle facade like steel which cannot be penetrated with ease or accuracy.

The Disciplinary Fallacy

Description of society in market terms compels exorcism of the devil fallacy that the discussion concerns material matters alone and excludes spiritual considerations. We discourse here upon a philosophy of life, a social theory, the manner in which man should treat his fellow man, the path to the goal of human happiness, creativity and value. Such a subject deserves interdisciplinary comment; it does not belong in the exclusive province of

the economist, merely because men and women rooted in the free market tradition have carried the banner for such a long time and in such a grand manner. Dr. Mises termed his discipline praxeology, the scientific study of human action,⁶ and indeed that aptly touches the essence of the investigation.

Yet, application of the appellation "scientific" obscures the philosophical aspects of the devotion, for the study of the free society and the proper role of the state involves a melding of science and philosophy. Science describes what *is*, philosophy delineates what *ought to be*. The praxeological, or scientific, aspects of the study of mankind reveal certain natural rules of order, of cause-and-effect, which invariably apply to human action: for example, free men thrive, slaves wither.

Overemphasis on the scientific realm conceals the moral and ethical aspects of human behavior. The study of human action is, at its core, a *moral* or philosophical endeavor which counts among its inquiries such questions as the individual's ethically proper relationship to other human beings. In simple terms, the scientific and the moral norms coalesce in the examination of society and state, for society concerns voluntary human relationships and the state depends upon involuntary action.

Thus, the so-called Austrian vanguard of the freedom movement has produced paradoxical results. On the one hand, the eminence of thinkers like Menger, Roepke, Mises, and Hayek bring credence to the ideas espoused and attract hordes of new disciples regularly. Their contributions to the study of individual conduct in the market realm deserve far-ranging applause and their way of life merits emulation. They have refined old ideas and developed new donations to freedom's fund of knowledge.

On the other hand, the formal academic credentials and chosen subjects of commentary of such giants tend to misrepresent the real nature of their devotion. Listeners and readers fail to appreciate the broad ethical base undergirding the study of society and state; they consign the speaker or writer to the confining classroom (or boardroom) of economics, without cognition of the impact of the study upon such diverse, but interrelated categories as history, psychology, philosophy, sociology, epistemology, axiology, and the like.

The proper role of the state is to foster and protect the free society. The free society consists of an open and voluntary aggregate of numerous individuals who freely seek the benefits of exchange with their fellow man while retaining untram-

meled ingress and egress to the group. The strength of the free society lies in its open grain, its flexibility, its lack of centralized planning, for it is only through such a ductile mechanism that growth becomes possible and mankind can meet and deal with the dynamics of living. The task of all who favor the free society and fear the excesses of the state transcending its appropriate functions is twofold: (1) learn the rudimentary concepts of state and society and their distinguishing characteristics; (2) speak truth to those who wish to listen, no matter the speaker's station in life or formal discipline. ☉

—FOOTNOTES—

¹See Foley, Ridgway K., Jr., "In Quest of Justice", 24 *Freeman* 301-310 (May 1974).

²Roche, George Charles III, *The Balancing Act* (Open Court, LaSalle, Illinois 1974).

³Recall Kant's dictum: "So act as to treat humanity, whether in thine own person or in that of any other, in every case as an end withal, never as means only." Kant, Immanuel, *Fundamental Principles of the Metaphysic of Morals* (The Liberal Arts Press, New York 1949) 46.

⁴For a further exposition see, Foley, Ridgway K., Jr., "Choice or Chains", 24 *Freeman* 199-204 (April 1974).

⁵1974 Nobel Prize Winner (Economics) Professor Hayek has made this observation in the past. See Hayek, F.A., "A Case For Freedom," 10 *Freeman* 32, 34 (1960).

⁶Mises, Ludwig von, *Human Action* (3rd rev. ed., Henry Regnery Company, Chicago, 1949) 3.

A Climate of Opportunity

Kenneth McDonald

WHEN UNEMPLOYMENT is at a record high, the federal government is pressed to create jobs.

The reaction is natural. Government has been allowed to assume such a major role in the economy that people look to it automatically for solutions.

It takes a considerable effort to perceive that the reverse is true. But the effort must be made.

The economy is in poor shape not for lack of government action but because government has acted too much. Its intrusion has been at the

Kenneth McDonald is a Toronto writer on economic and political subjects. This article is reprinted, with the author's permission, from *The Globe and Mail* (Toronto) April 13, 1977.

Though beamed to Canadians, the ideas are equally pertinent in the United States or in any other nation.

expense of the productive activities that alone can generate lasting employment.

Jobs are generated in a dynamic climate where new ventures replace and outnumber those that fail and where the continuous drive for improvement throws off fresh opportunities in a multitude of directions.

What benefit is to be had from make-work projects which are funded with wealth diverted from the productive process? Instead of being turned back to create more wealth, this money is "redistributed."

Those engaged in the projects may gain temporary relief, but it will be as short-lived as the political expediency that prompted it.

Where governments go wrong is in assuming an active role, for which they are unsuited, while neglecting the passive one for which they are.

By discouraging success and subsidizing failure they have created a climate where mediocrity is the norm, where the ambition of the young is to find a safe job with a (preferably indexed) pension and where anyone willing to take a risk is regarded as a freak.

By inflating the state's bureaucracies, governments have created a condition where commitment has been replaced by committees, where leadership is abandoned in favor of exhortation, and where no one is responsible for anything.

Canada is said to be faced with an energy crisis and with the economics of scarcity. Yet the scarcest commodity is not traded on the exchange. Nor is its scarcity a result of physical depletion.

The scarcest commodity is the economic energy that fuels the productive process. It consists of two elements: human ingenuity and the risk capital that must be found to turn that ingenuity to good account.

Both require incentive.

Now, when the need is for recurrent crops of economic energy, the Government's proper role is to create a climate in which this will flourish.

That climate will come when people are encouraged to take risks. Their incentive will be the assurance of keeping a major portion of whatever reward the venture may bring them.

If they are to take risks, the risk must be set against the possibility of a reward commensurate with the risk: big risk, big reward.

For every ten ventures, eight may fail, two succeed. For it to be worth taking the ten chances, the two successes have got to pay off.

Where, for those ventures, is the risk capital to come from?

Not from banks. They are properly restricted by a fiduciary responsibility to their depositors.

Not from governments. They have a similar responsibility to the taxpayers. The responsibility has been somewhat eroded of late, but it is still there. Moreover, civil servants are conditioned not to take risks. There is a natural, but unbridgeable, gap in understanding. (Not, unfortunately, that this stops them from trying.)

What governments could do, however, is change the climate. For example, they could change the taxing method from ability to pay to benefits received. They could tax costs instead of profits and apply a flat rate (estimated at about 16 per cent) on all personal income above an agreed-on minimum.



The stereotype of the top-hatted capitalist with cigar and gold watch chain is a belief that dies hard.

Today's risk-takers are more likely to number a dentist, a builder, a professional engineer and an airline pilot.

Who is to say what is a "fair" return to them?


The irony is that, not only in Canada but in the West generally, governments and their bureaucracies are presuming to make that decision. In the Netherlands, for instance, it is proposed to define a fair return on equity as the yield on government bonds, plus 2 per cent for risk.

How can a civil servant, who is

not exposed to risk, understand the function of risk-taking? How many dentists would lend money to an inventor or a designer on the chance that at some time in the future, if the venture succeeded, they might begin to get 11 per cent on their money? They could get more tomorrow from mortgages.

The government that employs the civil servant is the biggest winner. Having no competitor itself, it is the biggest competitor of every business in the land. The money it risks was not earned or saved by the people who decided to risk it. But the return is assured. Through corporate tax, through personal income taxes and sales taxes, government takes a growing share of the fruits of production.

The private investor of equity capital, without whose willingness to share the risk the business would not have started in the first place, must line up, cap in hand, behind the Government which, having taken no risk at all, claims its reward from the day the doors are opened.

When government stops competing, when government reverts from its active role to a passive one, only then will it have contributed its share to the process of creating wealth and jobs. 



Good Government

It is easy to make what Representative Marjorie Holt of Maryland has called "the case against the reckless Congress." Year after year our so-called statesmen on Capitol Hill plunge us deeper into inflationary debt. The making of law is delegated to administrative agencies, with little subsequent care or interest in checking the monstrosities that grow out of arbitrary and often unconstitutional decrees. Congressional pay raises are wangled without a true vote. And taxes are set without any regard for their impact on the production that is needed to pay for the bloated welfare state that has been foisted upon us.

But if Congress is generally reck-

less, we do have good men on Capitol Hill. As Edmund Burke might have said, there is no way of indicting an entire legislative body. Congressman Philip M. Crane of Illinois yields to nobody in his deep understanding of traditional American virtues and in his dislike of all the trends that have been undermining them since the Nineteen Thirties. His *The Sum of Good Government* not only tells us what has gone wrong with the republic but offers a whole series of practical reforms that could be effected without waiting for crisis to overwhelm us. And over on the other side of Capitol Hill Senator Jesse Helms of North Carolina, a true Christian statesman, attacks what he calls

“the weariness of soul” that has paralyzed much of the Christian West. He has put his analysis into a small but potent book, *“When Free Men Shall Stand,”* which also includes constructive ideas about change that would have the full support of Congressman Crane.

Phil Crane takes his title from Thomas Jefferson, who said “the sum of good government” consists of leaving men “to regulate their own pursuits” of industry and improvement as long as they are “not injuring one another.” The Jeffersonian ideal hasn’t been honored since Calvin Coolidge was in the White House.

The Sum of Good Government

by Philip M. Crane. Published by Green Hill Publishers, Inc., P.O. Box 738, Ottawa, Ill. 61350. 214 pages, \$1.95 paperback.

Coercion, of course, began even before the Twentieth Century. Phil Crane is particularly good in tracing the growth of the regulatory spirit, which was born in the Eighteen Eighties with the Interstate Commerce Commission. The original excuse for the ICC grew out of the theory that railroads were necessarily monopolistic, which, considering the navigable rivers,

lakes and canals of America, was hardly true for at least the eastern half of the country. If there was ever any need for the ICC anywhere, in Dakota or Utah, it disappeared with the coming of the automotive truck and the airplane. The Wright brothers and Henry Ford made travel regulation obsolete as long ago as 1903. But instead of invoking a “sunset” law for the ICC, our non-Jeffersonian Congressmen extended ICC regulation to the trucking industry, with the full complicity of the Teamsters Union.

For the air, we got the Civil Aeronautics Board, whose regulatory practices have added greatly to the cost of air travel. In testimony before a U.S. Senate subcommittee, Dr. William A. Jordan, a professor of managerial economics at York University in Toronto, suggested that air fares in the U.S. might be cut almost in half if the CAB were to be abolished.

The Federal Communications Commission is another agency that has greatly outreached itself. It may be granted that some way must be found to allocate wave lengths to prevent TV and radio interference. But why should the FCC have the right to regulate programming, which should come under the free speech protection of the First Amendment? And why should regulation of any sort be extended to cable television, which does not de-

pend on the FCC for allocations to get its programs into homes?

The so-called Health Care Crisis is, according to Phil Crane, based on a completely erroneous analysis. If private medical practice has been doing such a bad job, how is it that the life expectancy of the average American has jumped from 49.2 years in 1900 to more than 70 years today? Tuberculosis and polio have practically been wiped out. Open-heart surgery is becoming commonplace. Of the 3,084 counties in the U.S., only 132 lack doctors. Most of the doctorless counties are either within quick driving range of the metropolitan areas or have practically no population at all. Phil Crane thinks that the "nationalized" health measures we have now are sufficiently costly without adding any more to them, and he makes his points clearly with specific reference to the breakdowns caused by socialized medical practices in England and Sweden.

If you want to know how the Federal budget could be cut to bring it into a noninflationary balance, Crane can show you how. But to keep Congress on a steady path, we need a return to the gold standard, which would allow individuals to protect themselves against inflation-mad politicians. Crane also suggests that the Jobs Creation Act, as outlined by his

congressional colleague Jack Kemp, is needed to stimulate capital formation, diminish unemployment—and yield more taxes at lower tax rates.

In foreign affairs, Crane would like to see us reject the phony "universality" of the United Nations. We should set up an association of nations that share adherence to the principles of freedom of speech, freedom of the press, trial by jury, due process of law, free elections, and freedom of association. Such countries as Japan, West Germany, France, Italy, Sweden, Great Britain, Canada, Australia and New Zealand could be invited to join for starters. This was more or less Clarence Streit's idea before it was Crane's, and it is good to see it revived. But Crane, unlike Streit, would not make a federal structure of his association at the expense of national sovereignty.

"When Free Men Shall Stand"

by Jesse Helms. Published by Zondervan Publishing House, Grand Rapids, Mich. 49506. 122 pages, \$1.75 paperback.

Jesse Helms' *"When Free Men Shall Stand"* parallels Crane's book in many ways. But where Crane is

specific, Helms tends to be general. He talks less about individual legislative proposals and more about philosophical and religious influences. He is particularly good in relating the Bible, which he regards as the great source of political and economic wisdom for the West, to secular theorists. The Biblical parable of the talents is enough to prejudice Jesse Helms in favor of Adam Smith and the work ethic.

Although he sticks for the most part to the standard theory that the West owes its culture to the Graeco-Roman-Hebraic-Christian past, Helms reverts to an idea about the origins of our democracy that was popular in the early years of this century only to be forgotten. This is the idea that democracy came out of the German forest, beyond the territory controlled by Roman legions. "Along the banks of the rivers that poured into the North Sea," says Helms, "lived . . . the Angles, Saxons, and Jutes, who practiced a form of self-government . . . it is from these rude barbarians, rather than from the Romans, that we gained the all-important concept of limited government . . ."

The Angles, Saxons and Jutes took their tradition to England, where it survived William the Conqueror, known to my old friend Spencer Heath as William the Hitler.

ON THE SILENCE OF THE DECLARATION OF INDEPENDENCE

by Paul Eidelberg

(University of Massachusetts Press, Amherst, Massachusetts 01002, 1976)

127 pages ■ \$7.00

Reviewed by Deidre Susan Fain

IN THIS BOOK, the author not only examines the lines but also reads between the lines of the Declaration to extract its full meaning. Particular emphasis is placed on the often misunderstood references to "equality" and "happiness" that have lately been perverted into justification for increased governmental intervention into people's lives. Eidelberg rejects the leveling egalitarianism of the twentieth century as being inimical to excellence and greatness, distinguishing it from "equality" in the Declaration's sense, which he regards as the precondition for true individuality, liberty, and the ascendancy of reason. Equality, he writes, "encourages the thrust of individuality in its quest for self-transcendence. It sustains liberty in the quest for effectiveness of purpose. And because it promises the rewards of merit, it energizes the pursuit of happiness."

Professor Eidelberg expands "human reason" to include not only the pragmatic rationality that teaches that twice two is four, but also a metaphysical reason capable of ap-

prehending universal truths and distinguishing between "power" and "justice." In addition to this metaphysical reason, "consent of the governed" must rely on "civility"—that decent respect for others, and that moderation of the self which can be found in the tone and spirit of the Declaration. It is only through the possession of this metaphysical reason, tempered by civility, that man can enjoy freedom: "Freedom presupposes the self-directed activity of the metaphysical intellect on which men's unalienable right to freedom of thought is ultimately grounded."

In an especially erudite chapter entitled "The Declaration Applied: Relativism versus Universalism," Eidelberg demonstrates the disastrous effects of moral relativism on current political issues, and how far removed such a philosophy is from the universalist principles of the Declaration of Independence. He points out the undermining effect relativism has had on freedom, and on the ability of a free society to survive in a world dominated by

tyranny. What the Declaration expresses, he argues, is a "genial orthodoxy" which "instills a quiet but manly confidence in the power of reason to apprehend truths transcending the vicissitudes and diversities of time and place, truths of abiding and universal significance." A "genial orthodoxy" provides a standard for judging between the merits of one society and another, between an American Revolution which produced a new form of liberty and present-day "wars of liberation" which result in new forms of servitude.

Professor Eidelberg takes a firm stand on the side of liberty and individuality. In his conclusion he points out that in pledging their "Lives . . . Fortunes, and . . . sacred Honor," the signers of the Declaration affirmed that the principles of liberty were worth more to them than mere survival, that economic freedom is essential to independence, and that integrity of character undergirds all else. Through this eloquent book, the Declaration still speaks to us today. 