the Freeman

VOL. 28, NO. 6 • JUNE 1978

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A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION
Irvington-on-Hudson, N.Y. 10533   Tel: (914) 591-7230
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THE FREEMAN is published monthly by the Foundation for Economic Education, Inc., a nonpolitical, nonprofit, educational champion of private property, the free market, the profit and loss system, and limited government.

The costs of Foundation projects and services are met through donations. Total expenses average $18.00 a year per person on the mailing list. Donations are invited in any amount. THE FREEMAN is available to any interested person in the United States for the asking. For foreign delivery, a donation is required sufficient to cover direct mailing cost of $5.00 a year.

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.

Edmund A. Opitz

Humane Values and the Free Economy

THE average American is in favor of freedom and he'll tell you so in no uncertain terms. He wants Church and State separate, he would object if government were to censor the press, he doesn't want some bureaucrat dictating to professors what they should teach. But at the same time he wants government to control and regulate business; he thinks industry and trade need to be policed in order to protect the consumer from the wolves. Warming up to his subject he proceeds to catalogue the wickedness of people engaged in commercial activity, and especially the sins of "big business."

Strange to say, these turn out to be the same old sins one finds in every walk of life. Some men in the business world are wicked, no doubt; but so are some ministers, some professors, some publishers, some entertainers, and even some television commentators. There's no reason for singling out businessmen—except to provide a specious rationale for saddling economic life with ever more bureaucratic regulations and controls. This has adverse economic effects, of course, adding to the costs of doing business and making all of us poorer, but that's not the worst of it. When economic enterprise is not free every other freedom is in jeopardy.

Human liberty is a precious and a fragile thing. Human liberty can not be won, or even sustained, on the economic level alone; but it can be lost on that level, and it is being lost there. Control the economic life of a

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people and you control every other aspect of their lives as well. "Power over a man's subsistence amounts to a power over his will." The truth of this ancient maxim has been pounded home in our time by the conditions of life behind the Iron Curtain.

Now, it is true that business is not the only sector of our society under fire. Our whole civilization—western civilization—has been under siege for several generations; and because our culture so largely embodies bourgeois values, the attack against business is reinforced by the revolutionary Communist thrust to unseat the bourgeoisie.

The bourgeoisie are the middle class—townspeople engaged in industry and trade—and their emergence in the modern period was opposed by the aristocracy, whose values were quite different. Few of us live next door to counts, dukes or lords: the nobility is distant in time and space, glowingly enshrined in romance and myth. "The nobleman has courage, spends without counting, despises petty detail. There is a great air of freedom and unselfishness about the nobleman. He will throw his life away for a cause, not calculate the returns. That is the noble *idea.* In reality, he lives by the serfdom of others, and he broadens his acres by killing, and taking other people's land—'the good old rule, the simple plan. That they should take who have the power, and they should keep who can.'" These are Jacques Barzun's words.

Dr. Barzun continues, "The bourgeoisie opposed such noble free-handedness and supported a king who would replace 'the good old rule' by one less damaging to trade and manufacture—and to the peasants' crops. But the regrettable truth is that there is no glamour about trade. Trade requires regularity, security, efficiency, an exact *quid pro quo,* and an exasperating attention to detail. . . . There is nothing spontaneous, generous or large-minded about it. Man's native love of drama rebels against a scheme of life so plodding and resents the rewards of qualities so niggling."

"What a convenient word is bourgeois!" Barzun observes. "How expressive and well-shaped for the mouth to utter scorn. And how flexible in its application—it is another wonderful French invention!"

The Working Class

The free enterprise system—or what is popularly called "capitalism"—has a special affinity for the type of man we'd call bourgeois or middle class. Industry and trade have never been the preoccupation of any aristocracy, which dislikes to sully its hands with ordinary work. Most of the world's work today is done by those who have risen from the ranks, largely by their own efforts, in societies which have no rigid caste barriers to prevent upward mobility.

The emergence of the businessman during recent centuries was not a solitary adventure; the freeing of the business sector of western society went hand in hand with the expansion of other liberties we cherish. The story is a familiar one, and it begins with the religious revolution of the 16th century which led eventually to the separation of church and state, and freedom of worship. Free speech and freedom of the press were parts of this liberating movement, and eventually—as Mercantilism gave way before the current of ideas released by Adam Smith, Edmund Burke, and others—economic enterprise was freed from political regulations and controls, and came under consumer guidance.

Consumers—by our millions of daily decisions in the market place to buy this or not buy that—project a pattern; and these buying habits of ours give entrepreneurs the clues they need to direct production into this channel or that, in an effort to please customers. In the free economy the consumer is sovereign. You may regard your product as the best gismo available anywhere at any price, but if the consumers don't like it they buy elsewhere and you go out of business. You, as an entrepreneur, have no power over customers except your ability to persuade and the quality of your product. This is the free market economy, and it is an integral part of the free society.

Everyone's Business

Freedom, we hear it said, is everyone's business, so each of us really does have a stake in freedom-in-general. To the extent that anyone's freedom is lost, everyone's freedom is in jeopardy. But there are particular freedoms, and when a particular freedom is attacked you'd expect those directly involved to rush to its defense. And this is what you *do* find in most instances. When religious liberty is threatened, churchmen unite to oppose the threat. When freedom of the press is imperilled newsmen band together. Any impairment of academic freedom is challenged by teachers, and intellectuals do battle on behalf of free speech. And when freedom of economic enterprise is being throttled by governmental controls businessmen and business organizations mobilize to resist the attack. Right? Wrong!

Businessmen, all too often, are unwilling to speak out vigorously, even in self-defense—as the celebrated economist, Joseph Schumpeter, has scathingly pointed out: "Perhaps the most striking feature of the picture is the extent to which the bourgeoisie, besides educating its own enemies, allows itself in turn to be educated by them. It absorbs the slogans of current radicalism and seems quite willing to undergo a process of conversion to a creed hostile to its very existence. . . . This is verified by the very characteristic manner in which particular capitalist interests and the bourgeoisie as a whole behave when facing direct attack. They talk and plead—or hire people to do it for them; they snatch at every chance of compromise; they are ever ready to give in; they never put up a fight under the flag of their own ideals and interests—in this country there was no real resistance anywhere against the imposition of crushing financial burdens during the last decade or against labor legislation incompatible with the effective management of industry."

I can imagine an ideal society where each sector was alert to rebuff threats to any other sector; where clergymen would go to bat whenever freedom of the press was threatened, and publishers jealously guarded academic freedom, and professors fought for freedom of medical practice, and doctors resisted every bureaucratic invasion of the market place, and businessmen cherished freedom of religion. In real life, however, things do not happen this way.

It is partly the fault of business itself that the freedom most gravely threatened right now is the freedom of the economy, on which not only our prosperity depends, but much else besides. Those immersed in the grubby details of the market place often lose sight of the big picture; the head of a business worries about falling sales and how to meet the next payroll, but here, in this serene academic environment, we can sit back and theorize.

Better Understanding, The Best Defense

The best defense of the free economy is a better understanding of the free economy, shared by more people. So let's put capitalism to the test. Put aside, for the moment, any opinions you may entertain about the free enterprise system we now have, and let's draw up some plans for an ideal economic order. If we were starting from scratch what requirements would we lay down for an economic order that would meet with our approval? I'm going to suggest that there are four major demands we should make of any economic system, and after we have spelled these out a bit each of us can decide for himself whether our present system falls short and how it might be strengthened and defended.

A good economic system has four characteristics:

1. A good economy produces goods and services efficiently.

2. A good economy allocates rewards equitably, to all participants.
3. A good economy broadens the scope for individual free choice.
4. A good economy functions in harmony with religious and moral values.

There's no argument on the first point; our present economic system does deliver the goods, as even its enemies admit. The American economy has never been wholly free; it has operated under various political restraints from the very beginning. But compared to the politically planned economies of other nations our relatively free economy has been a paragon.

Producing and exchanging in a largely free country has bestowed a prosperity upon America that the world envies. Americans started poor. There was little per capita wealth two hundred years ago; but our forebears had an abundant faith in the nation's future under God, a strong belief in themselves, and they practiced the Puritan work ethic. This was the land of opportunity, and millions of the poor and oppressed of other nations migrated here to make their own way in this "land of the free." By and large they succeeded; never have so many advanced so far out of poverty in so short a time.

There have been evils in American life, and some are there still; along with errors, shortcomings and blindspots. But what other nation is entitled to cast the first stone, or the second, or the third? If the American Dream has faded, if there is tarnish on our idealism, where lies the fault? The Church and the School are the institutions charged with the responsibility for things of the mind and spirit, and if we have lost that vision without which the people perish, if our value system is in disarray, we surely can't blame business and industry—which merely reflect the consensus.

The Goals of Life

The goals of human life, the ends appropriate for creatures such as we, are the primary concerns of religion and education. The increase of material well-being may be the *means* for achieving the good life; it is certainly not the *end* for which life should be lived. The economic order has the modest role of supplying our creaturely needs efficiently so that we may have the leisure to pursue our personal goals. In America the economy has performed its role commendably. It is not to be blamed for the failures of other institutions.

The relatively free economy we have enjoyed in America has brought unparalleled prosperity, but an affluent society is not necessarily a just society. And so we come to the second test we wish to put to the free enterprise system: Does it allocate the rewards fairly and equitably?

In a free society every one of us is rewarded by his peers according to the value willing buyers attach to the goods and services he offers in exchange. This is the market in action. This market place assessment is made by consumers, and we all know that consumers are ignorant, venal, biased, stupid; in short they are people very much like us! This does seem to be a clumsy way of deciding how much or how little of this world's goods shall be put at this or that man's disposal.

Isn't there an alternative? Yes, there's an alternative, and it occurred to people more than two millennia ago. We'll invite the wise and the good to come down from Olympus to sit as a council among men, and we'll appear before them one by one, to be judged on personal merit and rewarded accordingly. Then we'll be assured that those who make a million really deserve it, and those who are paupers belong at that level; and we'll all be contented and happy. What lunacy! The genuinely wise and good would not accept such a role, and I quote the words of the highest authority declining it: "Who made me a judge over you?"

The market place decision that this man shall earn twenty-five thousand, this one ten, and so on, is not, of course, marked by supernal wisdom; no one claims this. But it is a million miles ahead of the alternative, which is to recast consumers into voters, who will elect a body of politicians, who will appoint bureaucrats, who will divvy up the wealth—by governmental legerdemain. This mad scheme backs away from the imperfect and lurches into the impossible! There are no perfect arrangements in human affairs, but the fairest distribution of material rewards attainable by imperfect men is to let a man's customers decide how much he should earn; this method will distribute economic goods unequally, but equitably.

We do live in an affluent society, and the fact is that the prosperity generated by our relatively free institutions has been widely shared by the American people. There are the rich, there are the less well to do, and there are still some poor; but this allocation of rewards represents the choices of people themselves—as reflecting their buying habits. But the question still remains; do we have a lopsided society in which a handful of people have accumulated the bulk of the wealth produced in our economy? Dubious statistics are offered to demonstrate that 10 per cent of the people own two-thirds of the wealth, or three-quarters, or 90 per cent, or whatever. Is there any truth in such figures, or do they tell a lie?

There's a fairly simple way to

check this out for yourself. Take home ownership. Is it a fact that a handful of people own the homes most of us live in? To the contrary; 45 million homes are owned by the families that occupy them. Assuming the family unit to consist in father, mother and one child this accounts for 135 million persons. Millions of other Americans can afford to own their homes, but choose instead to rent an apartment or a house. Take automobile ownership: 82 million people own their own cars and 33 million own two or more cars. There are 130 million licensed drivers in the country.

Eighty-three million housing units have electric refrigerators; there are 125 million television sets, 55 million of them color; 70 million homes have washing machines; and there is a radio for every man, woman and child in the country. And as for food, we are the only nation in history whose number one medical problem is overeating! I do not know who concocted the first share-the-wealth scheme. It was ages ago, and it was a pipe dream from the beginning. It is a pipe dream still for most of the world's people. But in America that dream has come true—in large measure. Capitalism—the free economy—has produced material abundance, and the benefits of our prosperity are enjoyed by almost every man, woman, and child in the country—as well as by millions of people around the globe.

Let me pursue this point through one more stage. Most people, when they reflect on the matter, agree that there is no concentration of ownership in everyday things like houses, automobiles and food. But when they get into the arcane world of the corporation, they are easily misled by those who have twisted "big business" into a four-letter word; they have been led to believe that the industry of this country is owned by a handful of stockholders.

Widespread Ownership

Pick any one of the giant corporations and examine its annual report. I picked Exxon, a fairly large outfit. The 1976 Annual Report reveals that Exxon is owned by approximately 700,000 shareholders; that's roughly 5½ times as many owners as employees, and it's about as many people as live in the whole state of Delaware. That's a lot of people, but there's more to come.

Note the large number of stockholders who are not individuals but institutions. Every major church body owns shares of stock in industry, but in some statistics a denomination counts as but one stockholder. Several thousand colleges own stock, but each is counted as one stockholder. Your local Bank and Trust Company is a stockholder on behalf of its thousands of depositors; every insurance company owns stock on behalf of its millions of policy holders; every pension fund is invested in stocks. Pension funds, including labor union funds, now own about one-third of the total value of all the stocks listed on the New York exchange. The unions have come to own so large a share of American industry that Peter Drucker refers to this phenomenon as "pension fund socialism." In short, nearly every American owns a chunk of the corporate wealth of America!

Now, it is true, of course, that there are some enormously rich people in this country. What do they do with their money? Some of them spend their money foolishly, just as you and I would do if we were in their shoes. But any millionaire who wants to preserve his fortune and pass it along to his children and their children, has no choice but to invest it in industries which produce the incredible variety of goods which flood the market places of America soliciting the patronage of the masses of consumers. No other society has ever allocated its rewards as generously, or so equitably.

Our present economic system, the system of free enterprise, has met our first two requirements; it has made us an affluent society producing over and above our own needs, an abundance that we have generously shared with the world; and every person who has participated in the production of goods and services shares equitably in the fruits of his production.

The third test has to do with an aspiration deeply rooted in human nature; we want to be free; we want the freedom to choose. We want to be free to worship in the church of our choice, to choose our own schools, to read freely and speak our minds. We want to be free to be ourselves, even if this is to practice what others regard as our harmless eccentricities. We want to be free to choose our profession or place of employment. We want solitude when we choose to be alone, and we want the freedom to choose our associates—which includes the right to dissociate. These are some of the demands of human nature itself, this is how God made us. As Jefferson put it, "The God who gave us life gave us liberty at the same time." Therefore, the third demand we make of an economic order is that it manifest, in its operations, a creature who is a freely choosing being.

By Acts of Choice

Man's will is uniquely free. All other creatures—birds, beasts, fish, and so on—obey the laws of their nature willy-nilly. Only man has the capacity to disobey the deep mandates of his being. Ortega, the great Spanish philosopher, remarked that the tiger cannot be detigered but the human being is always in danger of being dehumanized. It is by acts of will, by acts of choice, that man is humanized; and this decision process, in the nature of the case, must be engineered by the individual concerned—by an act of inner resolve. Each person is self-controlling, he is in charge of his own life; and if a person refuses to assume responsibility for himself no one can exercise this role by proxy, from the outside.

The free society is our natural habitat; freedom accords with human nature, and the tactic of freedom as it applies in the economic sector is capitalism, the market economy. The economy is free when the productive activities of men respond sensitively to the needs of consumers, as these needs manifest themselves in people's buying habits. It is true, of course, that when people are free to spend their money as they please they will often spend it foolishly—other people, that is! They'll make mistakes. But isn't that one of the important ways we learn in life, by being free to make mistakes, picking ourselves up every time we fail and standing a bit taller every time we succeed?

The biggest mistake of all is to persuade ourselves that we can avoid the little mistakes people make in a free society by adopting a planned economy. A centrally planned nation is necessarily a command society. Individual persons are no longer free to make their own decisions, their private plans must be cancelled whenever they conflict with the overall political plan. This is a giant step along the road to serfdom.

No Guarantees

To have economic freedom does not, of course, mean that you will be assured the income you think you deserve, or the job to which you think you are entitled. Economic freedom does not dispense with the necessity for work. Its only promise is that you may have your pick from among many employment opportunities, or go into business for yourself. And as a bonus the free economy puts a multiplier onto your efforts, to enrich you far beyond what the same effort returns you under any alternative system.

The American economic system—free enterprise, capitalism, the market economy, call it what you will—has never been as free as the believer in the free society would wish. But it aspires toward freedom, as do most citizens of our country; and our economy has indeed been freer than the economies of other nations. But despite the restrictions and controls, our relatively free economy has (1) delivered goods and services efficiently; it has (2) allocated rewards equitably; and (3) it does expand opportunities for personal choice in society.

There is one final point. Americans are basically a religious people who try to bring moral values to bear on the issues of public life. Does a person have to put aside his religious and moral values while engaged in the sordid business of making a living—as some misguided voices declare? Or is there, as I believe, a vital relationship between market place and altar? No man's judgment can rise above his understanding of the facts; and as I have pointed out, there is gross misunderstanding of the nature of business and the economy—especially, it seems, among those given to pronouncing moral judgments!

Biblical religion has at least three important and relevant criteria for judging social policy:

(a) the idea of justice voiced by the Old Testament prophets;
(b) the New Testament ideal of the sacredness of persons (i.e., Rights endowed by the Creator); and
(c) the Protestant emphasis on the importance of personal decision—you are closed to God's grace until you decide to open yourself up.

Put these ingredients together in the proper proportions—justice, the sacredness of persons, and the necessity of choice—and you have the free society. The political structures of a free society are designed to assure the inviolability of every person. They maximize his opportunity to pursue his personal goals, and they cultivate an economic order that is guided by consumer demand. This was the social goal envisioned by the eighteenth-century Whigs, the men we refer to as the Founding Fathers. What they founded was prepared for by eighteen centuries of tutelage in biblical religion.

Questions Concerning the Morality of Capitalism

This may sound good, the critic tells us, but doesn't the psychology of capitalism take the wraps off greed, and doesn't capitalism elevate money-making to the chief end of man? And didn't Jesus condemn wealth?

The answer to all three questions is No. As my first witness I call upon the eminent sociologist, Max Weber, and quote from his celebrated book, *The Protestant Ethic and the Spirit of Capitalism.* "The impulse to acquisition, pursuit of gain, of money, of the greatest possible amount of money, has in itself nothing to do with capitalism. This impulse exists and has existed among waiters, physicians, coachmen, artists, prostitutes, dishonest officials, soldiers, nobles, crusaders, gamblers, and beggars. It should be taught in the kindergarten of cultural history that this greed for gain is not in the least identical with capitalism, and is still less its spirit." Greed is a human frailty, to be condemned where found and overcome if possible. It is not the exclusive vice of any class or occupation. In any event, it has nothing to do with the efficient production of goods and services in the capitalist order and their equitable distribution.

My second witness is the eminent theologian, Reinhold Niebuhr. Late in life, after being converted away from Socialism, Niebuhr made a sage comment on the profit motive. Even the minister is economically motivated, he wrote, "when he moves to a new charge because the old one did not give him a big enough parsonage or a salary adequate for his growing family."

We can better understand Jesus' attitude toward material possessions if we contemplate a seeming paradox: Jesus had harsh things to say about the three R's; the three R's in this case being Religion, Righteousness, and Riches! We learn from the Gospels that something which resembles religion, but which is ritualistic and external, may immunize us against the real thing, which is inward and spiritual.

Which of us does not feel, at times, the exasperation which caused a member of Parliament to blow his top and say: "Thank God for the Church of England; it's all that stands between us and Christianity!" And by the same token, perfunctory righteousness—Pharisaism—may harden the heart and beget an uncharitable spirit. Riches, too, may pose a peril; but this is a matter of degree only, for it is just as common to be infected with a false philosophy of material possessions by a thousand dollars as by a million. Avarice is a common trait in all cultures and at every economic level. There are misers everywhere, and a miser is one who puts his trust in riches, and in so doing he treats means as an end.

This is the point of Jesus' parable of the rich man whose crops were so good that he had to build bigger barns. This good fortune was the man's excuse for saying, "Soul, thou hast much goods laid up for many years! take thine ease, eat, drink, be merry." There is a two-fold point in the parable; the first is that nothing in life justifies a man in assuming this attitude; we must never stop growing. It has been well said that we don't *grow* old, we become old by not growing. The second point is that a material windfall may tempt a man into the error of quitting the struggle for the real goal of life. Jesus condemned the man who put his *trust* in riches, who "layeth up treasure for himself and is not rich toward God." Which is not the same as condemning material possessions *per se,* or wealth held under proper stewardship.

Life is probative; our three score years and ten are a test run. As St. Augustine put it, "We are here schooled for life eternal." And one of the important examination questions concerns the economic use of the planet's scarce resources and the proper management of our material possessions. These are the twin facets of Christian stewardship, and poor performance here will result in dire consequences. As Jesus put it, "If, therefore, you have not been faithful in the use of worldly wealth, who will entrust to you the true riches?"

Economics, the science of means, needs religion, the science of ends. To inflate a means into an end is idolatry. In sober truth, no economic system can be anything more than a means. The ends for which life should be lived take us into another dimension, into the domain of our moral and religious life. As created beings we are designed to achieve a transcendent end: "Thou hast made us for Thyself, and our hearts are restless until they find rest in Thee." But if we are to live as we should live during this life, we must be free; and one of the imperatives of the free life is freedom of economic enterprise.

IDEAS ON LIBERTY

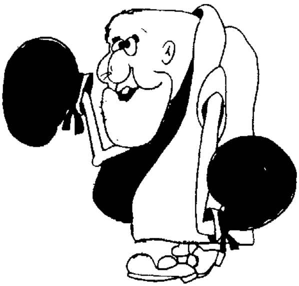
Material Rewards

IT SEEMS TO ME one of the great merits of a free society that material reward is *not* dependent on whether the majority of our fellows like or esteem us personally. This means that, so long as we keep within the accepted rules, moral pressure can be brought on us only through the esteem of those whom we ourselves respect and not through the allocation of material reward by a social authority. It is of the essence of a free society that we should be materially rewarded not for doing what others order us to do, but for giving them what they want. Our conduct ought certainly to be guided by our desire for their esteem. But we are free because the success of our daily efforts does not depend on whether particular people like us, or our principles, or our religion, or our manners, and because *we* can decide whether the material reward others are prepared to pay for our services makes it worth-while for us to render them.

F. A. HAYEK, "The Moral Element in Free Enterprise"

Hans F. Sennholz

YOU CANNOT GET EVEN



GOVERNMENT affects individual incomes by virtually every decision it makes. Agricultural programs, veterans' benefits, health and labor and welfare expenditures, housing and community development, federal expenditures on education, social insurance, medicare and medicaid programs, and last but not least, numerous regulations and controls affect the economic conditions of every citizen. In fact, modern government has become a universal transfer agency that utilizes the political process for distributing vast measures of economic income and wealth. It preys on millions of victims in order to allocate valuable goods and services to its beneficiaries. With the latter, transfer programs are so popular that few public officials and politicians dare oppose them.

The motive powers that drive the transfer order are as varied as human design itself. Surely, the true motives are often concealed, and a hollow pretext is pompously placed in the front for show. And yet, man is more accountable for his motives than for anything else. A good motive may exculpate a poor action, but a bad motive vitiates even the finest action. Conscience is merely our own judgment of the right and wrong of our action, and therefore can never be a safe guide unless it is enlightened by a thorough understanding of the implications and consequences of our actions. Without an enlightened conscience we may do evil thoroughly and heartily.

An important spring of action for the transfer society is the desire by

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most people to *get even* in the redistribution struggle. "I have been victimized in the past by taxation, inflation, regulation, or other devices," so the argument goes, "therefore I am entitled to partake in this particular benefit." Or the time sequence may be reversed: "I'll be victimized later in life," pleads the college student, "and therefore I want state aid and subsidy now."

This argument is probably the most powerful pacifier of conscience. It dulls our perception and discernment of what is evil and makes us slow to shun it. After all, we are merely getting back "what is rightfully our own." With a curious twist of specious deduction the modern welfare state, which continually seizes and redistributes private property by force, is defended by the friends of individual liberty and private property. "Man is entitled to the fruits of his labor," they argue, "we are merely getting back that which is rightfully and morally our own." They borrow the arguments for the private property order to sustain the political transfer order.

Surely getting back that which is rightfully and morally our own is a principle that is rooted in our inalienable right to our lives. It is a property right that springs from our human rights and from the right to life itself. It is the right to restoration of the fruits of our efforts and labors of which we are deprived by deceit, force, or any other immoral practice. It is a specific right to recovery or compensation from those who are wronging us or have injured us in the past.

This right to restoration does not beget the right to commit the very immoral act from which we seek restoration, to imitate others in acting immorally, or to seek revenge against the trespassers or innocent bystanders. But this is precisely what the "get-even" advisors urge us to do.

In an unfortunate automobile accident we are hurt or injured, or our vehicle may be damaged, because of the negligence of another driver. This gives us the right to demand restoration and compensation from the guilty party. But it does not give us the right to seize another car parked in the neighborhood, or return to the road and injure another driver. Or, our home is burglarized and we suffer deplorable losses in personal wealth and memorabilia. This does not bestow upon us the right to do likewise to others. But the "get-even" advocates are drawing this very conclusion.

He who is desirous of "getting even" in the politics of redistribution longs to join the army of beneficiaries who are presently preying on their victims. They would like to get their "money back" from whomever they can find and victimize now.

Like the victim of a burglary who becomes a burglar himself, they are searching for other victims. But in contrast to the new burglar who may be aware of the immorality of his actions, the "get-even" advocate openly defends his motives while he is pursuing his political craft.

We cannot get even with those individuals who deprived us of our property in the past. They may have long departed this life or may have fallen among the victims themselves. We cannot get even with them by enlisting in the standing army of redistributors. We merely perpetuate the evil by joining their forces. So we must stand immune to the temptations of evil, regardless of what others are doing to us. The redistribution must stop with us.

The redistributive society has victimized many millions of people through confiscatory taxation, inflation, and regulation. Government, acting as the political agency for coercive transfer, seized income and wealth from the more productive members and then redistributed the spoils to its beneficiaries. Although many millions of victims and beneficiaries were involved, which often obscures the morality of the issue, the forced transfer took place between certain individuals. It is true, the beneficiaries, who used political force to obtain the benefits, cannot easily be recognized in the mass process of transfer. But even if we could identify them, and establish a personal right to restoration, our property has been consumed long ago. A vast army of beneficiaries, together with their legions of government officials and civil servants, consumed or otherwise squandered our substance. There is nothing to retrieve from the beneficiaries who probably are poorer than ever before, having grown weak and dependent on the transfer process.

When seen in this light, the get-even argument is nothing more than a declaration of intention to join the redistribution forces. It may be born from the primitive urge for revenge against government, state or society. But it is individuals who form a government, make a state and constitute a society. By taking revenge against some of them for the injuries suffered from the hands of others, I am merely reinforcing the evil.

Revenge is a common passion that enslaves man's mind and clouds his vision. To the savage it is a noble aspiration that makes him even with his enemies. In a civilized society that is seeking peace and harmony it is a destructive force which law seeks to suppress. But when the law itself becomes an instrument of transfer, the primitive urge for revenge may burst forth as a demand for more redistribution. It becomes a primary force that gives rise to new demands or, at least, reinforces the popular demands for economic transfer. The common passion for revenge, no matter how well concealed, undoubtedly is an important motive power of social policy that leads a free society to its own destruction.

No wealth in the world and no political distribution of this wealth can purchase the peace and harmony so essential to human existence. Peace and harmony can be found only in moral elevation that reaches into every aspect of human life. A free society is the offspring of morality that guides the actions and policies of its members. To effect a rebirth of such a society is to revive the moral principles that gave it birth in the beginning. It is individual rebirth and rededication to the inexorable principles of morality that are the power and the might. The example of great individuals is useful to lead us on the way, for nothing is more contagious for greatness than the power of a great example.

To spearhead a rebirth of our free society let us rededicate ourselves to a new covenant of redemption, which is a simple restatement of public morality. In the setting of our age of economic redistribution and social conflict it may be stated as follows:

- No matter how the transfer state may victimize me, I shall seek no transfer payments, or accept any.

- I shall seek no government grants, loans or other redistributive favors, or accept any.

- I shall seek no government orders on behalf of redistribution, or accept any.

- I shall seek no employment, or accept any, in the government apparatus of redistribution.

- I shall seek no favors, or accept any, from the regulatory agencies of government.

- I shall seek no protection from tariff barriers or any other institutional restrictions of trade and commerce.

- I shall seek no services from, or lend support to collective institutions that are creatures of redistribution.

- I shall seek no support from, or give support to associations that advocate or practice coercion and restraint.

We do not know whether our great republic will survive this century. If it can be saved, great men of conviction must lead the way—men who with religious fervor and unbounded courage resist all transfer temptations. The heroes of liberty are no less remarkable for what they suffer than for what they achieve.

Wesley H. Hillendahl

What Is Happening to Old-Fashioned Charity?

JUST what is happening to old-fashioned charity and why? Perhaps we can gain an insight by looking into current economic and political trends.

In preparing for a discussion of subjects such as philanthropy and charity, which are outside my principal field of economics, I find it informative to go to the dictionary. For "charity" Webster offers "love" as one of the synonyms. Love—a most personal concept. Continuing, Webster offers "kindness" and "help for the needy or the suffering." This definition describes charity as a most personal, individual, and voluntary concept. Turning to "philanthropy," Webster offers "the active effort to promote human welfare." Note the change in emphasis. The term "welfare" in turn is defined as "good fortune, happiness, well-being or prosperity." Philanthropy moved up a notch from needy and suffering to well-being and prosperity. This concept conveys benevolence, and to a certain extent, individual and voluntary, but tends to be impersonal and a lot less urgent.

In reviewing the first 150 years of this country's history, I would say that Americans could be characterized by terms such as "industrious, productive, self-reliant, independent, humane, kind and charitable."

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This article is from an address of October 22, 1977, at the 101st Annual Meeting of the American Humane Association, Honolulu, Hawaii.

The Freedom Ethic

Americans operated under what has been called the freedom ethic: the freedom to choose, the freedom to try, the freedom to sell, to buy, and even the freedom to fail. Being a compassionate people, they built thin cushions into the system to prevent absolutes. Absolute failure was guarded against through various forms of personal charitable aid.

Today, however, we seem to be faltering; we seem to be confused. In a misdirection of compassion we are substituting for the "freedom to" philosophy, a coercive "freedom from" system. Not only must we prevent people from failing, they must not be permitted to be underprivileged. So we are adopting a series of "freedoms from." For failure we have substituted social welfare, or freedom from insecurity. For buying, we have substituted consumerism, or freedom from exploitation, real or imagined. For selling, the substitute is regulation, or freedom from competition; and for trying, is the freedom from striving which is at the root of the welfare state.

In their compassion, politicians have become adroit at gaining favors for special interest groups. They are fattening the cushions against failure, using taxpayers' money to the point where increasing numbers of people are preferring to fail. For example, compared to a tax-free unemployment or welfare income of $120 a week, a worker's income of about $255 a week is required to break even after deducting withholding taxes, the cost of transportation, parking, clothing, and all the various items which must be paid in order to work. So if a person can't find a job at $255 a week, why work? Increasing numbers of people are choosing idleness. Why not, when one can make more money by failing? The ability to fail in comfort, of course, requires a bureaucracy to enforce the collection and disbursement of tax money from the workers.

The Welfare Ethic

This is the welfare state in action. The welfare state is commonly accepted today as the preferred form of government throughout much of the world. England, France, Sweden, the United States, and to an increasing extent Germany and Japan are prime examples. Webster defines the welfare state as one in which the state assumes responsibility for individual and social welfare of its citizens. Note the change in structure. The welfare state bureaucracy enforces a cold, impersonal, involuntary, forceful redistribution of wealth.

Many economists see the welfare state as society in transition. Ludwig von Mises and Nobel laureate Friedrich von Hayek, for example, have pointed out that such a society must eventually dissolve into a totalitarian command society. You may wonder why they take such a position. They would agree that in contrast to a constitutionally restricted republic wherein the government can do only that which is spelled out in the constitution, under the welfare state there are no constitutional restraints and we can make the government do what we want it to do virtually without limit. This form of government encourages pressure groups to form in society, each seeking a piece of the action. There are endless causes around which pressure groups can rally. The point is that the process only ends when everything is under the control of the bureaucracy which passes out the loot from the public treasury.

As background to the question as to what is happening to charity, once government takes over a particular responsibility, it is a matter of record that the individual citizens are relieved of that responsibility. Individuals are only too glad to relinquish responsibilities so they can devote more time and money to their other responsibilities. Take for example OSHA legislation which administers industrial safety. In Washington last year, a member of the President's Council of Economic Advisors told me the CEA had just completed a study of the impact of OSHA on industrial accidents. They found the program to be contraproductive; the accident rate was increasing. Why? After years and years of decline, industrial accidents were increasing because industry was turning over the responsibility for controlling industrial accidents to the government. Business, just like an individual, is only too happy to relinquish responsibilities, including accident prevention.

This is precisely what is happening to old-fashioned charity. The welfare state is crowding out charity and philanthropy by systematically taking over responsibilities from individual citizens. Let's look at the record of private philanthropy in the United States over the last 15 or 20 years. The statistics are meager, but during the period between 1960 and 1976 total voluntary contributions in the United States are reported to have increased from about $8.9 billion to about $29 billion. The total has been growing in recent years at a rate of about 7 per cent annually, a little more than the current rate of inflation. Over the same period, total personal income in the United States has been expanding at around 9 per cent a year. Seven doesn't keep up with nine by a considerable amount when comparing compound growth rates.

It is clear that the growth in private philanthropy is lagging behind personal income in the United

States. The same is true of Hawaii. The Aloha United Way has increased from $3.8 million in 1968 to $6.9 million last year, for an average annual growth rate of about 7.5 per cent. Personal income in Hawaii has been growing at 10.5 per cent. United Way giving is lagging 3 whole percentage points behind the growth in personal income. These comparisons are significant because individuals account for almost 80 per cent of the contributions to charitable organizations.

Social Welfare vs. Voluntary Giving

Comparing reported private philanthropy with government programs in the United States, social welfare payments have risen from a total of about $24 billion in 1950, to $286 billion in 1975, and are currently increasing at almost 15 per cent a year. Such payments have accounted for more than half of federal outlays and almost two-thirds of state and local outlays over the last 15 or 20 years. Compared with total personal income in the United States, which has been increasing at 9 per cent annually, welfare payments are skyrocketing. In 1950, total social welfare payments accounted for about 10 per cent of personal income payments in the United States. They now account for close to 25 per cent of personal income, and continuing another 15 years at the same rate will account for 50 per cent of personal income. This means that the government will pay out 50 per cent of the incomes of individuals who are working to individuals who are outside the workforce. Presently, one can readily account for some 60 million people who are receiving some form of state, county or federal aid.

How do the social welfare programs compare with the voluntary programs? In 1950 philanthropy represented almost 20 per cent of the total welfare payments. Today, philanthropy accounts for a little more than 9 per cent. Continuing these trends another 10 to 15 years, the share will drop to 3.5 per cent. Individual charity and philanthropy are clearly being crowded out by the welfare state.

Morality at Stake

Of prime importance is the impact of these trends on individual morality. What is happening to the morality of the individual welfare recipient, and the compassionate social welfare worker who advises ways for the recipient to cheat on welfare? What's happening to the self-reliant individual who was in the mainstream of the American way of life 50 to 100 years ago? Illustrative of the transformation, Community Action Programs actively promulgate the doctrine that an individual is legally and morally entitled to receive welfare today. It has become one's legal and moral right to accept legal plunder. On the other hand, unless one is willing to accept jail or penalties, the taxpayer is forced to pay his or her taxes. In contrast to the voluntary payments of an earlier period, taxes today are collected coercively.

As the level of taxes and spending by government approaches 50 per cent of the total income of working people, what effect do we observe the tax and welfare burden is having on the attitudes of individuals toward voluntary giving? Indifference and apathy. After all, if the government is taking care of the problem with our tax dollars, why should one bother to contribute to Aloha United Way? At a 10-to-1 ratio, the government is vastly outperforming the private organizations, and with the people's own tax dollars.

Roots of the Problem

An examination of the root causes of the problem would start with the underlying economy which consists of millions of individuals each trying to produce a service or product taken to market to sell to a buyer. In the process, savings or profits are generated, the combination of which are the lubricators of the economic system. These profits go into financial institutions, such as banks, savings and loan associations, and insurance companies. Savings and profits are transformed into loans for houses, and plant and equipment where people can live and work. Some of these savings and profits become charitable contributions. The amount depends to a large extent on the level of taxes for operation of the various levels of government.

In 1900, taxes paid to federal, state and county governments amounted to only 9 per cent of personal income, leaving 91 per cent for people to spend as they chose. Individuals had a great deal of latitude as to where they could spend or invest their incomes. Today, government takes almost half of the earnings of the working people. That leaves only half to spend. The effect on savings and profits should be obvious. Savings and profits are being taxed away. As a result, companies can't retain enough profits and they are forced to borrow. Interest rates have risen in the face of the shortage of capital. This makes it difficult for an individual to buy a house when he has to compete with General Motors and all the other industrial borrowers.

Yet, many in their ignorance are prone to call "profit" a dirty word. Their ignorance is compounded by the appearance that there is an abundance of money all around. This in turn gives the appearance of an adequate flow of savings and profits. The apparent abundance of money is made possible by the nature of the central bank or the Federal Reserve System, which in effect has a license to print money as a substitute for genuine savings. When it prints money faster than the expansion of goods and services in the market, the excess money competes with money and credit already available. The result is a dilution of purchasing power in the form of rising prices. This is what we call price inflation. The accelerating inflation in recent years is clear evidence that savings and profits are too low and the Federal Reserve is being forced to make up the deficit by printing money at accelerating rates.

Continuation of present trends would result in a tax level which will eventually confiscate all of the income of the workers and redistribute it to those on some form of welfare. At some point the system would collapse as more and more workers would refuse to work or pay taxes. The imposition of government controls would become necessary and would likely spell the end of private philanthropy.

Money Mania

In order to avoid such an eventuality, these trends must be reversed, if not for ourselves for future generations who must live in the aftermath of the economic and political collapse. We must first identify the problem and then select a course of action. Charles Mackay wrote *Extraordinary Popular Delusions and the Madness of Crowds* 135 years ago. A chapter describes what he called "money mania" in France in the 1720's, the classic example of modern inflation.

John Law had a prescription to make France prosperous. His prescription was a central bank which could issue paper money. His proposal was enthusiastically accepted, and for a few years France prospered. However, the bank inflated the money supply to accommodate the speculative Mississippi Bubble. The inflation and bursting "bubble" spread ruin throughout Europe. Again, during the 1790's immediately following the violent French Revolution, the French assignat was printed in unlimited quantities with the idea of restoring prosperity. For a second time "money mania" led to an inflation which bankrupted France and led to the takeover by Napoleon in 1799. In the early 1920's the destruction of the German middle class through monetary inflation brought about the Third Reich.

A total transformation of the economy and political structure occurred each time monetary inflation was attempted. Today, "money mania," a disease of the last three centuries, is running rampant not in just one country as earlier, but is sweeping the world.

"Money mania" is at the core of the prevailing notion that government can pass laws, increase the money supply endlessly, and spend tax dollars to solve all of society's problems.

A Return to Freedom The Critical Choice

Since government has demonstrated that it compounds every problem it has ever undertaken to solve, the choice is obvious: turn away from this madness and return to the freedom philosophy where individuals are free to solve their own problems. The resultant tax reduction would expand consumer demand to the point where even those reluctant to work would find challenging opportunities. While a remnant of a free society remains, we have a choice. Once the total welfare state is imposed, we will no longer have the choice. So the time to choose is now.

The job of restoring the freedom philosophy seems difficult, but the alternative is unthinkable—history abounds with the record of failures. Success will provide the opportunity to gain the kind of moral and economic prosperity experienced only in brief periods of history. The release of the creative spirit from its present bondage would carry society to a productive level where the need for charity and philanthropy would become minimal. By the same token, resources would be so bountiful that problems of charitable fund-raising would become inconsequential. Such was the faith and dreams of our Founding Fathers. Let each of us start to do his part to insure that this faith is preserved. Let's start now!

If We Need Laws . . .

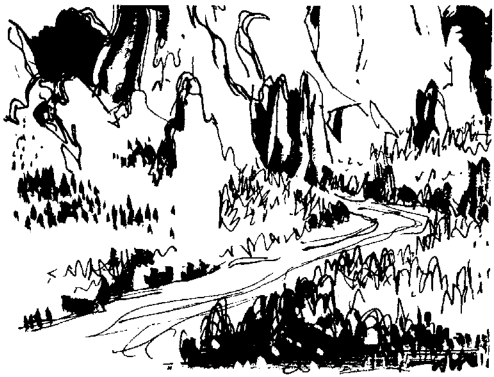
IDEAS ON LIBERTY

IF WE NEED LAWS to make people treat men of other faiths and races as friends; if we need the police power of the secular state to take money from men for human need; if it is believed that the only hope of a city of God is to seek the alternative of a collectivized mass leveled to the lowest common denominator of mentality and ability—if all this be the limit of our hope for mankind, then even such activity is sheer futility, for even if such an effort could be achieved it would have no meaning at all for mankind. This rejection of personal responsibility would prove only that it is possible to make men live like whipped dogs, and the proving of it would be hell.

RUSSELL J. CLINCHY, "Charity, Biblical and Political"

Hal Watkins

The Road to Jericho



ONE of the most famous stories Jesus told is the parable of the Good Samaritan as recorded in Luke 10:25-37. It concerns a tragic incident on the road from Jericho to Jerusalem, a distance of about 20 miles. Part of the road was very steep and rugged; some of it was quite smooth. It illustrates the common road over which all of us must travel; sometimes it is steep and rugged, and other times it is quite smooth. It's every man's road.

A number of characters appear on the Jericho road, just as they do on the road of life. By examining them we will be able to identify with some of them and perhaps learn some lessons.

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The first to demand our attention is the lone man. By common consent the road was open to the public, so this lone man had every right to be on it without fear or hindrance. Each of us has a God-given right to travel the road of life without being hindered or molested. Even though we enjoy various types of companionship along the way, in a sense we are traveling the road of life alone. We will be influenced more or less by family, church, school, co-workers, business, government and some predators, but the final decisions, for the most part, devolve on each of us individually.

As a lone man I have a right to expect non-threatening treatment from all my fellowmen. If any other man finds himself in a circumstance where he feels he must act toward me, he should do only that which helps rather than hinders. This, of course, is also my obligation toward him. A lone man (woman or child) is vulnerable to harm of various kinds, and also to help.

The next characters to appear in this drama of life are the cruel men, the robbers who recognized no God but their animalistic desires. They took advantage of the lone man, stealing his goods, his time and his well-being. The motivation in the hearts of these men was the Satanic principle that "might makes right," or "what's yours is mine—if I can get it." Such evil men add nothing of value to the lives of the people they contact along the way, but they will take everything they can get by fair means or foul. Their own advantage is their only consideration. They wound, bruise and rob. It may be money, reputation or even characters—they don't care.

The thieves in the parable probably ambushed the lone man as he came around a blind corner, but some of their counterparts are more sophisticated or subtle in our day. They might feign distress along the freeway, beg a ride to the next town and rob the benefactor en route. Or, they might put out a plea in favor of the "disadvantaged" and ask the government for help, but since the government has nothing to give, it must first steal the funds from its taxpayers. This might even involve a conspiracy between those desiring the aid, the group pleading their cause and the government agents (legislators, etc.). The whole problem may become difficult to sort out, trying to determine just who are the sincere agents and who are the thieves. But the apparent difficulty should not be allowed to obscure the problem: the lone man *has* been robbed; his freedom and his very life have been threatened. In what we like to call a "free society," can we shrug it off by saying that each man will have to hire his own army or police force? Perhaps we would do better to examine a system that threatens and crushes the individual and rewards thieves and their accomplices.

On the road of life, within the framework of a "Christian" society, there surely must be some protection for the lone man from the depredations of thieves, the "minus" men who would live solely at the expense of others.

On the road to Jericho there were also other men, selfish men who saw the plight of the abused traveler but had no concern for him or the problem. They were religious men too, but their religion—at least as they practiced it—did not consider the misfortunes or even the rights of their fellow human being. They, of course, would never steal from a lone traveler in the manner practiced by the bandits, but they didn't want to get involved. "Tough experience for the poor devil. Should have known better than to be traveling alone. Hope someone moves him off the road."

True Christianity is in the world today, but there are many counterfeits. Many of the alleged followers of Christ occasionally express concern for the plunder taking place along the road of life, but they don't lift a finger to expose or solve the problem. The New Testament writer, James, is quite blunt in his description of them: "To him therefore that knoweth to do good, and doeth it not, to him it is sin" (4:17). The attitude of these "zero" men is: "We were not robbed, so it's no concern of ours. What we have we will keep."

Fortunately, on the road to Jericho, there came another man who was not a disappointment but rather a delightful surprise. He had a pure Christian philosophy: "What is mine is yours, and in your misfortune I will share it." He gave of himself and his means. He was the compassionate, unselfish man. This type is also on the road of life today. Not only would he steal nothing from his fellows, but he adds much to their general welfare.

The Good Samaritan did not wait beside the stricken traveler until another victim came along, beat and plunder him, then give the proceeds to the first victim. He was not a first-century Robin Hood who robbed others to help the poor, but he gave of his own means. He didn't run for political office as a cover to conduct his robbery "legally," then give to the poor. Jesus certainly pictured him as a *concerned* man, one who was not content to pass by on the other side as though nothing had happened. He saw a fellow human being in distress, and he visualized himself as part of the solution to the problem. This was a mandate from his conscience to DO SOMETHING. He was not a "minus" man, or even a "zero" man. He was a "plus" man. And Jesus forced his hearer to admit that the Samaritan was motivated by love.

Within the Christian context we are not here to wound, crush, rob or even to ignore. We are here to heal, lift, encourage and contribute of our talent and energy to the end that others too may, if they so desire, enjoy the same blessings we have. This truth has been around long enough to be axiomatic, and Jesus said, "Ye shall know the truth, and the truth shall make you free" (John 8:32).

World in the Grip of an Idea

Clarence B. Carson

18. The United States: A Republic and Gradualism

IF saying so made it so the United States would today be the stronghold of capitalism and the citadel of free enterprise. Many intellectuals who deplore this state of affairs nonetheless proclaim it to be so. The notion crops up frequently in writings about America by Europeans. There are even Americans who say they favor free enterprise and who declare that the United States is the prime example of it in the world. They may be right in their judgment, but if they are it should give more than a little pause as to the state of freedom of enterprise in the world.

There should be no doubt that the United States was long considered as and was in fact a land of opportunity. Immigrants poured into America from other lands in increasing numbers after the first third of the nineteenth century. They came, in part at least, because they hoped for and often found greater opportunity than in the lands from which they came. There are still opportunities in the United States today. Many of the oppressed peoples from around the world still

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

try to gain entry to this country. They are oppressed as a result of the idea that has the world in its grip. But they must surely discover when they arrive here that the idea has its grip on the vaunted land of opportunity as well as on other lands.

How free is enterprise in the United States? No one has, to my knowledge, devised a means for making the kind of measurements which would give a precise answer to the question. Computers have now been made that can provide swift, almost instantaneous, answers to all sorts of questions, but the most sophisticated computer would be unable to tell us how free enterprise is. This is the case mainly because there is no way to quantify the obstacles that government puts in the way of enterprise, but there is also no way to take into account the ways human ingenuity will discover for overcoming or getting around these obstacles. Even so, the question can be answered with sufficient exactitude to show that enterprise is being stifled, choked, throttled, limited, and restrained in America, and that there is a well established trend in this direction. And government restriction is in some way a limitation on enterprise, and restrictions abound today.

Perhaps the best way to test how free enterprise is in America would be to survey the obstacles that stand in the way of someone contemplating going into business today. No brief survey can hope to cover all the obstacles; indeed, they may now be so numerous that a lifetime would be too short to learn them. Some of the obstacles are of such complexity that anyone contemplating going into business in a particular locale would need expert legal advice from those familiar with the local situation. But a survey of the obstacles can show the character of many of the limitations and the trend toward increasing them.

The Need for Capital

The first need of anyone going into business will almost certainly be some capital reserves, since virtually all undertakings require capital of greater or lesser amount. To get capital it is usually necessary either to save it oneself, borrow it from others, or get them to invest in the enterprise. The greatest obstacle to individual saving today is inflation, and inflation is a direct consequence of government monopoly of the money supply and continual increase of it. Inflation discourages saving: it even introduces doubt as to the merits of it. Inflation reduces the value of money saved because as the money supply is increased prices rise. This means that the saver could have bought more with the money at the time that he first received it than he could at a later date, if the inflation continues over a long period of time. Inflation has been almost continual in the United States since the early 1930's and shows no signs of abatement.

The graduated income tax is another deterrent to capital accumulation. Not only does the United States government have such a tax but so also do most states. The more one makes the larger proportion of it is taken by governments. Proponents of the graduated income tax often talk about it is as if it were a means of taking from the "haves." It is better understood in its most devastating effects as taking from those who are "getting," for the "haves" can sometimes avoid it entirely. At any rate, progressive taxation limits and obstructs enterprise by making it difficult to accumulate investment capital.

Social Security payments are another inhibiting tax on those who would save to start an enterprise, and this tax has mounted precipitously in recent years. Social Security payments might be conceived as a system of forced saving, but they hardly qualify as savings at all. All that is paid into it is forfeited by the individual, forfeited as far as any control over it is concerned. He cannot draw the money out in order to make investments. He cannot use it to take advantage of greater opportunities as they come along. In short, so far as saving for starting an enterprise is concerned, Social Security payments are just so much money lost to taxation.

Borrowing offers hardly more freedom from obstruction by government than does saving for the would-be enterpriser. Banks are the most readily available sources of loans, but they are also probably the most severely regulated undertakings in America today. National banks are chartered by the United States government, and state banks by the states, thus limiting the number and variety of such institutions.

Bank Regulation

The federal government regulates the activities of all national banks and all those which are members of the Federal Deposit Insurance Corporation, which is to say virtually all of them. State laws regulate all banks within their bounds as to such matters as branch banking and interest rates. Most states have usury laws which place limits on the percentage of interest to be charged. This latter restriction is particularly obstructive to new enterprisers, for all enterprises are risky and new ones especially so. Banks are loath to take such risks when they can charge maximum interest on insured and government guaranteed loans. Moreover, state and federal regulations discourage or prohibit certain types of long term loans, and government comptrollers look carefully at the type of collateral pledged to secure loans.

Then, too, federal, state, and local governments are competitors with private individuals for the money that is available for lending, and they enjoy some decided advantages in this competition. The federal government requires and/or encourages the banks to have some proportion of their investments in government securities. Municipal bond proceeds are exempt from federal taxes. Banks are much more likely to be able to help a new enterpriser by discounting any paper he holds from his customers than they are to put money directly into the enterprise.

The frustrated enterpriser may look hopefully toward incorporation and the selling of shares in his projected business. But he will discover quickly enough that if he decides to go "public" with his offering governments have erected obstacles here as well. The Securities and Exchange Commission keeps a wary eye on stock offerings, and the more recently set up consumer protection agencies may be no less alert to what he is doing. The SEC is more than a little dubious as to the validity of any claims that might be made about the future prospects of the business. Should the shareholders lose for one reason or another, the new enterpriser may find himself the object of civil, or criminal, suits by various government agencies.

An Array of Obstacles

People somehow manage sometimes to overcome the great variety of obstacles in the way of it and get together sufficient capital to go into business. But in trying to decide what business to go into they encounter another impressive array of obstacles. In contemplating the possibilities, anyone will discover, if he did not know already, that many sorts of enterprise are very nearly or entirely closed to him. The coining or issuing of money has been a monopoly of the United States government for so long that hardly anyone would conceive of it as a potential field for enterprise.

The other most general monopoly of the United States government of a possible business undertaking is that over the carrying of mail, especially first class mail. In earlier times, even with the government occupying the dominant position, there were many opportunities for entrepreneurs to engage in mail transport and even, sometimes, delivery. Star routes, as they were called, were serviced by individuals and private companies; trains, boats, and busses transported mail. Now, most of those opportunities have been foreclosed. The United States Postal Service maintains its own fleet of trucks; and privately owned airlines are the only remaining private domestic transporters of mail of any consequence.

There are other monopolies by the federal government, but they are not so extensive in scope. There is the monopoly of merchandising on military posts by the Post Exchanges. There is the monopoly of the generating and sale of electricity in some regions such as the Tennessee Valley.

The Panama Canal Zone has long been the most thoroughgoing monopoly of the United States government. "Private parties are not allowed to own any land in the Zone and private businesses do not operate there. Therefore, the many other businesses in the Zone other than the Panama Canal are maintained and operated by the Panama Canal Company. These businesses include a steamship line between New York and the Isthmus of Panama; a railroad across the Isthmus, the cargo docks and piers and harbor terminal facilities on the Isthmus; a coaling plant for ships; an oil-handling plant; commissary stores . . . ; a printing plant; restaurants, theaters, bowling alleys," and so forth.[1] If Communists do take over the Canal Zone they will find their basic work has already been done.

The federal government now virtually monopolizes intercity rail passenger transport by way of AMTRAK and is extending its sway into freight hauling by way of CONRAIL.

State governments have also established various monopolies. The most dramatic of these may well be that over the sale of liquor and certain other alcoholic beverages. About one-third of the states have a monopoly of the sale of at least some of the alcoholic beverages. Where there are state liquor stores, those who are considering going into some legal business must put this area of potential opportunity out of mind. But even where states do not own and operate the stores, there are usually strenuous restrictions upon entry into such undertakings.

Although neither the federal nor state governments monopolize the manufacture of spiritous liquors, their laws and prohibitions are such that in effect they secure a monopoly to a select few domestic and foreign manufacturers. During much of American history no single undertaking, besides farming, had so many entrepreneurs as distilling, and many farmers supplemented their income with the product from their "stills." These distillers have now become an endangered species as a result of decades of relentless search for and pursuit of them by "Revenuers."

States generally have a variety of monopolies. For example:

> The state of New York has long maintained a system of barge canals 525 miles in length, which it operates at public expense, charging no tolls. The Commonwealth of Massachusetts, since

1918, has operated the transit system of Boston and neighboring cities and towns. Harbor facilities at ocean ports—wharves, docks, warehouses and the like—are usually owned by state governments. At New Orleans a State Board of Port Commissioners, formed in 1896, operates grain elevators, coffee terminals, banana conveyors, cranes, derricks, a belt line railway, a canal, and a free trade zone. . . .[2]

Local governments generally have several monopolies which exclude private enterprise. Municipalities frequently monopolize trash and garbage collection, water distribution, sale of electricity, distribution of natural gas, and bus or other street and subway systems. At one time, virtually all local transportation systems were privately owned and operated, but price and service restrictions became such a handicap that cities took them over.

Indeed, the whole field of transportation is now very nearly closed to enterprisers. Railroading was so regulated by the Interstate Commerce Commission that it ceased to be a growth business. Nowadays, a would-be enterpriser would be as likely to think of building a railroad as he would to go into manufacturing buggies. City transport is not a viable opportunity, and it is being made less so by massive government grants for the building of rail systems. It is possible to go into trucking, but the obstacles to doing so are such that only the most intrepid enterpriser would venture into the field. Taxis are so regulated in most cities, and the privilege of operating one so restricted that opportunity in this field is limited. Entry into the air transport business is hampered by the Civil Aeronautics Board, and it sometimes takes years for established carriers to get authorization to provide new service to some city or locale.

Government Schools

The field of education has never been a particularly good arena for private enterprisers, and it is generally becoming less so today. Laws requiring school attendance for young people have taken that facet of education out of the realm of economic goods, that plus the fact that "free" public schools are provided. Such private schools and colleges as exist are usually subsidized by gifts and tax-free contributions, hence making it difficult for anyone to enter the field in the hope of profit. On the fringes of education, e.g., teaching various skills such as auto repairing or barbering, there used to be considerable opportunity for enterprisers to found and operate schools. These are being hard pressed today, however, by vocational courses in the public high schools and by the vocational emphasis in many government funded trade schools and community colleges. Governments are well on their way to monopolizing education by using their taxing powers to exclude competitors.

Many hospitals were once privately owned and operated, but such hospitals are rare today. The Hill-Burton Act brought large doses of federal money to hospital building and gave encouragement to government owned and operated hospitals. It would be exceedingly difficult today to raise the capital necessary to provide the expensive equipment necessary to compete with government owned hospitals.

Governments at all levels are vigorous competitors in providing recreation facilities. This is particularly true for parks, zoos, golf courses, swimming pools, lakes, and waterways. Many buildings in which recreation activities take place—e.g., auditoriums, ball parks, civic centers—are now being built with tax funds. Not only does the prospective enterpriser find his potential savings taken away in taxes to support such undertakings but also his entry into such enterprises made difficult by government competition.

Research and Information

The federal government is in the research and information business in a big way. The Government Printing Office is enormous, and keeps busy printing numerous pamphlets, making available research reports, publishing agricultural treatises, and providing information for businessmen. A United States Senator pointed out a while back that the Commerce Department gathers around 100,000 research and development reports each year, and that the government spends approximately $10 billion each year on research.[3] Although governments have not pre-empted the information field, they have made great inroads into it.

There are, of course, enterprises that can be started in which there is little direct competition from government, but there are obstacles to be overcome in going into any of these. A minimum requirement in almost any locale is to get a license. Beyond that, many undertakings require a charter or franchise from some one or more governments. Many kinds of undertaking have special training or knowledge or moral requirements. For example, barbers may have had to have spent a specified length of time in training in a state recognized school, nurses to have undergone a particular regimen, teachers to have taken certain education courses in order to be certified, real estate salesmen to have passed a written examination, plumbers to have served an apprenticeship, saloon-keepers to have conformed to certain moral standards, and so on. Lawyers usually have to pass the bar examination in the states in which they wish to practice.

It may be instructive in getting some idea of how far this goes to look at this partial list, in one state, of those agencies charged with overseeing certain undertakings: State Board of Accountancy, State Board for Examination, Qualification and Registration of Architects, Commission for Auctioneers, State Board of Examiners for Speech Pathology and Audiology, State Board of Barbers, Board of Chiropractic Examiners, State Board of Cosmetology, State Board of Dentistry, State Board of Electrical Contractors, State Board of Engineers and Land Surveyors, State Board of Registration for Foresters, State Board of Funeral Service, State Board of Registration for Professional Geologists, State Board of Hearing Aid Dealers and Dispensers, Board of Landscape Architects, Board of Physical Therapy, State Board of Private Detective and Private Security Agencies, State Board of Examiners for Sanitarians, Commission of Structural Pest Control, Board for Registration of Used Car Dealers, State Board of Registration for Used Motor Vehicle Parts Dealers, Motor Vehicle Dismantlers, and Motor Vehicle Rebuilders. The list is not complete by any means, but the point perhaps emerges.

Anyone going into business has to have some place from which to operate, i.e., land, buildings, or offices. If he needs land, he will find himself in competition—though that hardly seems to be the right word—with federal, state, and local governments for the dwindling supply of land. Governments were once the great sellers of land in America, but they have now reversed the field and become major buyers—perhaps "condemners" would be more descriptive—: for military installations, for parks and forests, for highways, for urban renewal projects, for hospitals, for lakes and dams, for schools, and so forth. As one writer puts it, the federal government "is the biggest landlord on earth, aside from the communist countries."[4]

Restrictions on Land Use and Building

Of course, the land and building will have to be selected with care if one is going into business. There are increasing restrictions on land use in the United States. Zoning laws have been around since the 1920's, though they get ever stricter, and they are now being supplemented with land use laws in many states for rural areas. But lately the United States government has gone into comprehensive land use control, or very nearly that, under the auspices of the Environmental Protection Agency. The government has asserted its sovereignty over land use to protect water, air, endangered species, and what have you. Anyone thinking in terms of operating a factory or manufacturing establishment must undertake the difficult task of assuring state and federal agencies, by way of surveys and tests, that he will not significantly harm the environment within which he locates.

Although the above are only a partial listing of the obstacles which a would-be enterpriser must overcome, let us suppose now that our enterpriser has managed to set himself up in business. However improbable it may seem, however much of at least a minor miracle it surely is, some men are actually able to begin new enterprises in the United States. They manage to accumulate the savings necessary despite the inflationary thrust, the progressive income taxes and the burden of Social Security or manage to borrow the money despite restrictions that make this difficult, or even succeed in selling stock in a corporation so as not to arouse the ire of the SEC. They select an undertaking that is not monopolized by government or that government competition has not effectively foreclosed. They get franchised, certified, licensed, authorized, permitted, qualified or whatever, find some land on which to locate in which their kind of undertaking is allowed, and satisfy the authorities that they will live in harmony with the environment.

A Senior Partner

Such an enterpriser is by no means out of the woods, however, simply because he has managed to open his doors for business. Indeed, it would be more correct to say that many of his troubles have just begun. The man who enters business discovers rather soon, if he did not know it already, that he has a Senior Partner—government. More precisely, he has a committee of Senior Partners, composed of federal, state, county, and, depending upon the locale, township and municipal authorities. These Partners may have thrown any number of obstacles in the way of his going into business in the first place; they may be in competition with him; they may have made low interest loans to his competitors or even granted them special privileges which he does not enjoy. They will rarely have invested anything in the business themselves. Yet once he opens his doors these Partners join the firm, so to speak.

In the first place, the Senior Partners require the businessman to be a tax collector. If he sells to consumers, he will generally be expected to collect federal excise taxes and state and local sales taxes. If he employs other people he will be expected to withhold federal and probably state and local income taxes from their wages. Under most conditions, he must collect the workers' Social Security taxes by way of payroll deductions. Some cities have employment taxes which he may have to collect.

No matter how small his business may be, the Senior Partners will require that the businessman keep extensive and precise records of his various transactions. He will need records, of course, of the taxes he has collected from others, and records for his own income and Social Security taxes.

The Senior Partners are not particularly mollified by getting the first fruits from any income and having the businessman collect taxes for them. They take an active role in determining how the business should be run. If he sells to consumers, various federal and state consumer agencies may take the side of his customers against him and haul him into court on their behalf or because he has not complied with one or more of the multitude of laws governing these relationships. In like manner, the Senior Partners stand ready to intrude in a great variety of ways on behalf of his employees against the businessman employer. They have, of course, generally specified that he cannot employ those who have not attained a certain age. They prescribe minimum wages, maximum hours, time and a half for overtime, and have long been solicitous of female employees.

Of late, federal and state governments have exerted themselves to see that employers do not discriminate in hiring because of race, sex, age, color, religion, or country of national origin, among other things. In order to prove that he does not do so, an employer is often bidden to take Affirmative Action to assure that he has the proper "mix" of minorities amongst his workers and be diligent in promoting such of these as he has assembled to the better positions he has available.

If his employees should decide to organize themselves into a labor union, the National Labor Relations Board has laid down all sorts of rules to which the businessman employer must comply. Should he be judged to have failed to comply he may well find himself saddled with back wages to pay and employees on his payroll whom he would prefer to do without.

Safety and Health

The Senior Partners concern themselves, too, with the safety and health of the businessman's employees. To that end, OSHA, a federal agency, promulgates all sorts of rules and standards for safeguarding the health of employees. Should an employer fail to comply with these standards he is subject to potentially heavy penalties.

Particular industries are subject to their own kinds of regulation. For example, the powers of the Federal Power Commission over producers and sellers of electric power show the extent to which the interference of a Senior Partner may go. It exercises the following powers:

> Prescribes and enforces a uniform system of accounts for privately owned public utilities engaged in the transmission, or sale or wholesale of electric power in interstate commerce; determines the original cost and accrued depreciation of facilities for the generation and transmission of such energy; investigates and regulates the rates, charges and services for such energy; passes upon application of such utilities for authority to issue securities, to dispose of, merge or consolidate facilities, to interconnect facilities, or to acquire securities of other public utilities; passes upon applications of persons seeking authority to hold interlocking positions; evaluates applications for and, when in the public interest, issues permits for the construction, operation, maintenance or connection of facilities at the borders of the United States for the exportation or importation of electric energy; passes upon applications for authority to export electric energy for the United States.[5]

The Senior Partners are also potential customers of the businessman. The federal government is today the largest purchaser of goods and services in the country. When it is joined by states and local governments, the role of government as purchaser is an immense one indeed. Needless to say, these governments extend additional authority over anyone from whom they buy goods or services. A seller does not just offer his custom in the market to government; government uses the leverage of a buyer to further control the businessman's business.

The above only scratches the surface of government intervention in the economy today, but perhaps enough has been told to warrant a conclusion. Enterprise is not free in the United States today. It is hampered, obstructed, restrained, constrained, restricted, limited, compelled, and otherwise confined by a multitude of regulations, requirements, and government competition. And there is a well established tendency to increase the intervention more and more over the years. Occasional "deregulation" is overmatched by restrictions introduced from other directions. For example, farm crops are not controlled as much now as they were twenty years ago, but land use restrictions are being introduced into rural areas.

Gradual Intrusions

Thirty or forty years ago there was considerable debate over whether the United States should have a planned economy or not. The issue was not resolved by the debate, but it has been largely resolved in practice by step by step intrusions into the economy. By government's regulatory powers, control over the money supply and hence over credit and banking, over education, over the communications industries, over transportation, over labor, over the environment, and so forth, planning is widely established today. In most of the United States today, no structure can be erected without permits, inspections, compliance with setback ordinances, zoning laws, and other such restrictions. Government subsidies to cities and regions determine the character and direction of developments in those areas.

A broader conclusion is warranted, too. The United States is under the sway of the idea that has the world in its grip. Whatever the merits or demerits of any or all of the government interventions discussed, one assumption underlies and powers them all: namely, individuals and voluntary associations of men cannot be trusted to provide for themselves and others by pursuing their own self-interest. They must be directed and controlled in their activities by an interest that is outside of and above them as individuals. Self-interest of individuals must be contained, restrained, and redirected—ultimately rooted out—, and for it must be substituted what is supposedly in the common interest. The instrument for imposing this common interest is government. That is the idea.

Under the sway of the idea, government has asserted its power into virtually every area of American life. Government has grown mighty and the individual weak and limited. How did this state of affairs come about? It is certainly a reversal of the idea on which these United States were founded. The United States was founded as a republic. Both the United States and the state governments operate under the auspices of written constitutions. The idea that informed these constitutions was that governments should be limited in order that individuals might be freed—freed to pursue their own interests in order to fulfill themselves as best they could and according to their own lights.

Keeping the Peace

It is, of course, the end of government that those within its jurisdiction shall be protected in their life, liberty, and property from harmful intrusions by others. To that end, governments were empowered to legislate, to use force, and to resolve disputes which threatened the peace in order that men might go about their affairs undisturbed by malefactors.

But beyond the granting of powers believed necessary to maintain governments which could keep the peace, put down domestic insurrection, and repel foreign invaders, the main efforts of the constitutions were to limit the governments they authorized. It was for this purpose that bills of rights were incorporated in them. It was to this end that the powers of government were separated into three branches. The listing of powers granted was supposed to constitute an inherent limit upon government. Even the dispersion of power into federal and state jurisdictions was thought to act to limit the exercise of power. If this was not the aim and purpose of the United States Constitution then those who successfully argued for its adoption were themselves either deceived or engaged in deceiving others.

Among the opponents of ratification of the Constitution of 1787 (the United States Constitution), not one could be found who did so because the government lacked power. On the contrary, it was the fear that it would become powerful and oppressive that animated them. A goodly number of men in that day took the time and made the effort to study the history of governments. One conclusion stood out among all the others that they drew: All governments tend to become oppressive. Few would have dared to rise in the conventions in those days, amidst the displays of historical erudition, to proclaim that men vested with the power of government have been so transformed that they could be trusted with determining what is for the well-being of those in their jurisdiction. On the contrary, it was settled opinion that those who govern will pursue power to the detriment of the well-being of their fellows if they are not deflected from the course. Limited constitutional government offered the best means they could conceive for delaying, if not ultimately preventing, the appearance of the oppressive tendency of government.

How It Happened

How, then, did this reversal take place? How were many of the confines on government removed and did government begin to confine the individual more and more? A portion of the answer is not difficult to find. It came about gradually, and step by step. Probably, none envisioned that when national banks were given a monopoly of the issue of bank notes in the 1860's by placing a prohibitive tax on state bank notes that in the 1960's virtually all concrete limitations on the money supply would be removed and that such powers as remained over the money supply would be under the control of the federal government. Yet the stage was being set for this course of events, not with malice aforethought but by a process of accretion of power.

Another point can be asserted

here; it has been written about and documented elsewhere, and the present theme precludes discussion of it in detail. The point is this, Americans, or a significant portion of them, came under the sway of the idea that has the world in its grip.[6] That is, they came to believe that when individuals pursue their self-interest it is detrimental to the general welfare, that the supports to the individual should be removed and the individual confined, and that government was the proper instrument to perform these undertakings. Although the idea generally goes by the name of socialism, most Americans never consciously became socialists and, of those who did, few avowed it. The attack upon the American system and the intrusion of government was done piecemeal. Yet when the development is viewed whole, it makes sense only in terms of the prevalence of the socialist idea.

It is important, however, to delve somewhat into the methods by which government power has been concentrated and unloosed. The dispersion of power by which these United States began had to be overcome and evaded. How this was accomplished needs now to be told.

Next: *19. The United States: The Concentration of Power.*

—FOOTNOTES—

[1]Harold Koontz and Richard W. Gable, *Public Control of Economic Enterprise* (New York: McGraw Hill, 1956), pp. 684-85.

[2]Clair Wilcox, *Public Policies Toward Business* (Homewood, Illinois: Richard D. Irwin, 1960), pp. 805-06.

[3]William Proxmire, *Can Small Business Survive?* (Chicago: Henry Regnery, 1964), pp. 99-101.

[4]Koontz and Gable, *op. cit.,* p. 695.

[5]Cornelius P. Cotter, *Government and Private Enterprise* (New York: Holt, Rinehart and Winston, 1960), pp. 227-28.

[6]The present writer has discussed this in detail in *The Fateful Turn* (Irvington, New York: Foundation for Economic Education, 1963) and *The Flight from Reality* (Irvington, New York: Foundation for Economic Education, 1969).

Moral Sickness

IDEAS ON LIBERTY

A SWELLING is one of the infallible signs of a sickness underneath, and the swelling of government in America today merely evidences the moral sickness of the people under it. Big government is for little people. The better the people, the less necessity there is for government. This simple, vicarious relationship between the citizen and his government is obscured today in the fog of our confused political councils.

CLARENCE MANION, "Cause of Corrupt Government"

John C. Sparks

WHO KILLED COCK ROBIN?

THE community was in shock. Its largest employer, a steel company, had announced the closing of a plant and a permanent reduction of five thousand jobs. This would also mean cutbacks at numerous supporting businesses in the community.

Steel company officials tried to explain that obsolete equipment, costly wage rates and fringe benefits, and prohibitive ecological requirements of government agencies had forced their unhappy decision. But many people were angry. Their villain was a large corporation, and the victims were thousands of hourly workers and their families—a "cause" made to order for politicians, union leaders, and even clergymen, with their various schemes to save jobs but with little appreciation for the process of job-creation and, thus, little understanding of events that had led to the demise of job opportunities at this closed plant.

A job, in the economic or market sense of the term, is an opportunity to serve customers who are willing to buy products or services at a satisfactory price level. There are many factors involved in creating a job. A steel mill job, for instance, requires a vast accumulation of capital—savings in the form of plant and equipment—as well as the managerial initiative and ingenuity to combine scarce and valuable resources in a way that customers will approve. The price customers are willing to pay for steel determines whether the

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company shows a profit or a loss after paying market rates of interest on invested capital, market wage rates to employees, and market prices for raw materials consumed in the production process. Unless management can efficiently and successfully compete in the market place, it cannot long provide jobs.

Other than Market Costs

There are further costs of production operative outside, or above and beyond, the market place. Two come to mind, and both relate to government. One is the cost of being governed—taxation. Those who wish to freely enter the market for peaceful purposes of production and trade may reasonably expect to share the costs of maintaining the peace and policing the market to keep it open—lawful defense of the property and the lives of peaceful traders. This is part of the cost of producing steel, or whatever, a cost that must be recovered in prices paid by customers if the business is to successfully meet competition.

Governors, however, are seldom self-inclined to limit their activities to the basics of preserving the peace. Nor is it unusual for citizens to pledge their votes in return for various "protections"—a process of trading political powers for special privileges, not in open market competition, but all at the expense of taxpayers. Thus has the U.S. welfare state grown and fed upon itself—and taxpayers—until a fourth to a third of the productivity of the nation is being shunted into these extra-market redistributionist programs.

Businesses in general, and large corporations in particular, are sorely taxed until eventually a business fails or a plant is closed—and jobs are lost. If the price of steel, or whatever, is obliged to reflect a portion of the cost of the farm subsidies, or the public school programs, or the domestic transportation and urban renewal and foreign aid bills, or the unemployment and social security and multiple other welfare and relief measures, then eventually even the cost of steel, or whatever, from a given U.S. producer may come to be more than the consumer is willing to bear.

The second major cost, reflecting governmental rather than voluntary market conditions, stems from the inordinate power that special laws allow labor unions over the owners of business. And this union power to claim higher than market wages hits especially hard at the steel industry. Most vulnerable are the older plants, with older workers at highest wages, and with the oldest and least efficient production equipment. The result? Any major weakness in demand for steel forces these older plants to bow out of competition. No matter the arguments used to obtain exorbitant wages. Forcing employers to pay wages higher then can be recovered in prices from customers results in plants closed and jobs lost.

Berating Business

It may be self-gratifying to berate corporate officials for their failure to feed the world's hungry masses, their failure to meet every union demand for wages and fringes, their failure to purify all the air and water of the nation, their failure to build more safety than serviceability into every company product—yes, these, and more, and above all, their failure to keep open a plant that can no longer be profitably operated. But instead of berating the efforts of businessmen to meet competition, should not each of us be asking himself where he stood when government regulations, controls, privileges and subsidies were being laced into the cost of products of industry? The question is not so much who is to blame as it is a question of what ideas and actions are responsible for the closure of a plant and the loss of jobs.

In a sense, the question is not *who* killed Cock Robin, but *what* killed Cock Robin? The culprit is the failure to understand why it is best to have people freely and peacefully making their own economic decisions. Such misunderstanding spreads from person to person, accumulates until another previously profitable business is washed down the drain. Then we grieve. So let us now, in our grief and pain, resolve to question our own past actions and attitudes.

Have I been one who seeks special privileges at the cost of other persons? Have I used my power to intimidate others who prefer to make decisions different from mine? Have I sneered at profits? At private ownership? At free enterprise? Have I been willing to vote to tax others for my benefit?

When one can honestly ask and intelligently answer such questions regarding economic and political policy, then he may deserve a new type of leader in government, in business, in his labor union, in the schools, in the churches—a leadership that will not resort to coercion and violence but rather look to open competition in the market as the solution to the problems perennially facing mankind. But while we lack such faith in freedom, while we persist in our demand for political welfare measures and special privileges, we must expect many more plant closings and lost job opportunities.

Lawrence W. Reed

THE SILVER PANIC

"History is little more than the register of the crimes, follies, and misfortunes of mankind," in the opinion of historian Edward Gibbon. While it may be argued that there are numerous triumphs in human affairs to write about, Gibbon's observation seems to be true. If the typical history text were to be stripped of any mention of war, depression, famine, coercion, tragedy, genocide, scandal, rivalry, and mayhem, the remains could probably be reprinted in a leaflet.

Strangely, the awesome Panic of 1893 seems to have escaped the careful scrutiny and exhaustive research of historians. Though it occurred only eighty-five years ago, it remains an obscure episode in American history. It signaled the beginning of a deep depression. Businesses collapsed by the thousands. Banks closed their doors in record numbers. Unemployment soared and idle millions roamed the streets and countryside seeking jobs or alms. And the country witnessed a spectacular display of political fireworks, now all but forgotten.

For the believer in the free economy, the story of the Panic of 1893 offers a treasure chest of empirical support. The lessons of this tragedy add up to a compelling indictment of government's ability to "manage" a nation's money.

Charles Albert Collman observed that "Money trouble was the manifest peculiarity of the long, drawn-out Panic of '93."[1] Indeed, a breakdown of the monetary system and national bankruptcy were narrowly averted in that year. But money is that great invention which permits the development of a modern exchange economy. How could something so vital to commerce become so troublesome?

Everyone knows that fingerprints are a great aid in placing a suspect at the scene of a crime. The distinguishing characteristics of each individual's skin patterns make this

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possible. In the case of the Panic of 1893, the tragedy is smothered with the fingerprints of politicians. "I deem it proper at the outset to state," wrote Charles S. Smith in the October, 1893 *North American Review,* "that the recent panic was not the result of over-trading, undue speculation or the violation of business principles throughout the country. In my judgment it is to be attributed to unwise legislation with respect to the silver question; it will be known in history as 'the Silver Panic,' and will constitute a reproach and an accusation against the common sense, if not the common honesty, of our legislators who are responsible for our present monetary laws."[2]

Early Interventions

Contrary to popular impression, government in America has never been totally aloof from the monetary scene. Article I, Section 8, of the Constitution grants Congress the power "to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." In the century preceding 1893, Congress experimented with two central banks, a national banking system, paper money issues, and fixed ratios of gold and silver.

America's first cyclical depression occurred in 1819, after three wild years of currency inflation caused by the Second Bank of the United States. When that "money monster" was eliminated by hard money man Andrew Jackson, the economy slumped into depression again and all the maladjustments of the Bank era had to be liquidated. In 1857 the economy had to retrench after a decade of credit expansion on behalf of state governments that had forced their obligations on the state banking systems. In 1873 the post-Civil War readjustment finally corrected the excesses of the government's rampant greenback inflation. The background of the 1893 debacle is equally interventionist and has some uniquely interesting features which give rise to the label, "The Silver Panic."

Gold and silver rose to prominence as the monies of the civilized world through a process of free and natural selection in the marketplace of exchange. Both circulated as money, though gold was far more valuable. The market ratio between the metals had been roughly 15 to 1 (15 ounces of silver trading for 1 ounce of gold) for centuries. Gold was preferred for large transactions and silver for small ones. The free market had established "parallel standards" of gold and silver, each freely fluctuating within a narrow range in relation to market supplies and demands. Before long, though, government decided it would "help out" the market by interfering to "simplify" matters. The result was another of the many well-intentioned blunders imposed on a populace by force of law: the official "fixing" of the gold/silver ratio. This became the policy of bimetallism.

Under the direction of Alexander Hamilton, the federal government adopted an official ratio of 15 to 1 in 1792. If the market ratio had been the same and had stayed the same for as long as the fixed ratio was in effect, then the fixed ratio would have been superfluous. But the market ratio, like all market prices, changed over time as supply and demand conditions changed. As these changes occurred, the fixed bimetallic ratio became obsolete and "Gresham's Law" came into operation.

Gresham's Law

Gresham's Law holds that bad money drives out good money *when government fixes the ratio between the two circulating monies.* "Bad money" refers to the money which is artificially over-valued by the government's ratio. "Good money" is the one which is artifically under-valued. Gresham's Law began working soon after Hamilton fixed the ratio at 15 to 1, as the market ratio stood at, roughly, 15½ to 1. This meant that if one had an ounce of gold, one could get 15½ ounces of silver on the bullion market, but only 15 ounces for it at the government's mint. Conversely, if one had 15 ounces of silver, one could get an ounce of gold at the mint but less than an ounce on the market. So silver flowed into the mint and was coined while gold disappeared, went into hiding, or was shipped overseas. The country was thus put on a de facto silver standard, even though it was the declared policy of the government to maintain both metals in circulation.

Congress in 1834 changed the ratio to 16 to 1, but the market ratio had not changed much, and this time *gold* was over-valued and silver under-valued. Gold flowed into the mint, silver disappeared, and the country found itself on a de facto gold standard.

With the end of the Civil War inflation, and subsequent readjustment in the depression of 1873, the story of the Panic of 1893 begins to unfold. It opens with the inflationist agitation of the 1870s.

In 1875, the newly-formed National Greenback Party called for currency inflation. The proposal attracted widespread support in the West and South where many farmers joined associations to lobby for inflation. They demanded at first that the government balloon the paper money supply in the belief that such a policy would guarantee prosperity. It was a demand that finds a less shrill but no less potent voice among many economists today. An eloquent refutation of the idea that the printing press can create economic wealth can be found in the words of Benjamin Bristow, President Grant's Secretary of the Treasury. In his annual message of 1874, Bristow declared:

> The history of irredeemable paper currency repeats itself whenever and wherever it is used. It increases present prices, deludes the laborer with the idea that he is getting higher wages, and brings a fictitious prosperity from which follow inflation of business and credit and excess of enterprise in ever-increasing ratio, until it is discovered that trade and commerce have become fatally diseased, when confidence is destroyed, and then comes the shock to credit, followed by disaster and depression, and a demand for relief by further issues. . . . The universal use of, and reliance on, such a currency tends to blunt the moral sense and impair the natural self-dependence of the people, and trains them to the belief that the Government must directly assist their individual fortunes and business, help them in their personal affairs, and enable them to discharge their debts by partial payment. This inconvertible paper currency begets the delusion that the remedy for private pecuniary distress is in legislative measures, and makes the people unmindful of the fact that the true remedy is in greater production and less spending, and that real prosperity comes only from individual effort and thrift.[3]

The greenback inflation of the Civil War era left an indelible impression on many Americans. They were suspicious of plans to revive a policy of deliberate paper money expansion on behalf of any special interest group. In 1875, Congress passed the Specie Resumption Act, declaring it the policy of the government to redeem the Civil War greenbacks at par in gold on January 1, 1879. It was regarded from this point on that in order to protect the redemption of the greenbacks, the Treasury would be obliged to maintain a minimum of $100,000,000 in gold on reserve. The most that the inflationists got was a government pledge not to cancel the greenbacks once redeemed, but to reissue them so that the total number outstanding would remain the same.

Turning to Silver

The attention of the inflationists was then directed at another medium: *silver*. Robert F. Hoxie, in the *Journal of Political Economy* in 1893, wrote that the inflationists focussed their demands on a silver inflation as a matter of expediency. "They had no love for silver as such," revealed Hoxie, "but it was the cheapest and most abundant substance for which they could gain support, its use would result in more legal tender currency, and its metallic character would in a measure shield the advocates from being stigmatized as inflationists."[4]

The inflationists now became "silverites" and their rallying cry became "Free Silver at 16 to 1." Their influence was sufficient to secure passage of the Bland-Allison Act in February, 1878—the first of the acts putting the government in the business of purchasing quantities of silver for coinage. The Act provided for the purchase by the Treasury of not less than two, nor more than four, million dollars' worth of silver bullion per month, to be coined into dollars each containing 371¼ grains of pure silver (which coincided with the lawful ratio of 16 to 1, since the gold dollar still contained 23.22 grains of pure gold). These dollars were to be legal tender at their nominal value for all debts and dues, public and private. Paper silver certificates were to be issued upon deposit of the bulky silver dollars in the Treasury.

The free silver forces were dissatisfied with Bland-Allison because it did not go far enough—it did not provide for the free and unlimited government purchase and coinage of silver at 16 to 1. The only silver to be coined would be the two to four million dollars' worth that the government purchased each month, and the Treasury, while the law was on the books, rarely bought more than the minimum amount.

Silver producers in particular had a vested interest in the state of affairs, for the market price of silver had begun a long-term decline in the 1870s. Securing a government pledge to buy silver at a higher price than could be obtained in the free market was an obviously lucrative arrangement. As the market ratio of silver to gold steadily rose above 16 to 1, the profit potential became enormous.

Bland-Allison Passed Over President's Veto

Bland-Allison was passed over the veto of President Rutherford B. Hayes. The president, in his veto message, noted that minting silver coins at the ratio of sixteen ounces of silver to one ounce of gold would drive gold out of circulation. The decline of the market price of silver had raised the *market* ratio at the time of passage of the act to nearly 18¼ to 1. If the mint offered to pay one ounce of gold for just sixteen ounces of silver, then only silver would be minted and the country would be on the road back to a de facto silver standard. In Hayes' belief, "A currency worth less than it purports to be worth will in the end defraud not only creditors, but all who are engaged in legitimate business, and none more surely than those who are dependent on their daily labor for their daily bread."[5]

When money is left to the free market, its supply is restricted by its scarcity and costs of production. Its value is thus preserved. The declining price of silver on the free market would have erased the profitability of many mines and hence would have prevented a drastic increase in silver currency. But when the government stepped in and bought large quantities of silver bullion for coinage, and paid more for it in gold than was offered in the market, it forced the quantity of the white metal in circulation to exceed its true demand. The government does much the same thing today when it subsidizes peanuts or wheat. The result of this political interference is a chronic surplus of these commodities.

The silverites' drive for favorable legislation culminated in the Sherman Silver Purchase Act of 1890, which replaced the Bland-Allison Act. The Sherman Act stipulated that the Treasury had to purchase 4.5 million ounces of silver per month, or roughly twice the amount the Treasury had been purchasing under Bland-Allison. Payment was to be made in a new legal tender paper currency, the so-called Treasury notes of 1890, redeemable in either gold or silver at the discretion of the Treasury. The 4.5 million ounces of silver mandated by the law represented almost the entire output of American silver mines. This continuing subsidy to silver producers meant that the government was engaged in a full-blown force-feeding of the American economy. It was only a matter of time before the patient would suffer the pangs of indigestion.

U.S. Out of Step

The action of the United States government in 1878 and 1890 with respect to silver was especially peculiar in light of world monetary events. Germany, immediately after the Franco-Prussian War in the early 1870s, had withdrawn her silver from circulation and adopted a single gold standard. France, Belgium, Switzerland, Italy, and Greece followed by first restricting the coinage of silver and then eliminating it altogether. Denmark, Norway, and Sweden adopted the single gold standard, making silver subsidiary by 1875. In that year, the government of Holland closed its mints to the coinage of silver. A year later, the Russian government suspended the coinage of silver except for use in the Chinese trade. In 1879, Austria-Hungary ceased to coin silver for individuals, except for a special trade coin. This rapid worldwide transition from silver to gold prompted the United States Treasury Department in 1879 to note that "since the monetary disturbance of 1873-78 not a mint of Europe has been open to the coinage of silver for individuals."[6] Yet the United States government, at a time when the value of silver was falling dramatically and when the nation's trading partners were abandoning the white metal, stepped in to promote silver against gold at the unrealistic ratio of 16 to 1!

One way of looking at silver's depreciation is to consider the annual average market value of the 371¼ grain silver dollar. In 1878, the bullion value of that much silver was about 89¢; by 1890 it dropped to 81¢; by 1893, it was worth 60¢; and by 1895 it plummeted to a mere 50¢. A climate of uncertainty pervaded the world of finance. As Professor J. Laurence Laughlin wrote, "No one could know that contracts entered into when a dollar stood for 100 cents in gold might not be paid off in silver which stood for 50 cents on a dollar. That was the predicament in which every investor found himself who had an obligation payable only in 'coin' and not in gold."[7]

In an article entitled "Thou Shalt Not Steal," Isaac L. Rice penned an eloquent repudiation of the government's silver coinage policy. His argument evoked the moral side of the question and eighty years later is still a forceful indictment of monetary dishonesty:

> Of the various classes of crime that come under the category of theft none is more odious and despicable than the use of false weights and measures. Stamping a coin containing 371¼ grains of silver as of the weight of one hundred cents, while in truth it is of the weight of fifty-three cents, is a falsification of weights morally not distinguishable from stamping any other kind of weight as of two pounds which in truth is only of one pound. Only the methods by which fraud is to be made are different. The thievish individual depends upon secret deceit, the qualities of the sneak thief; the Government on coercion, the qualities of the highwayman.[8]

In accordance with inexorable economic law, the Bland-Allison and Sherman Acts caused a drain of gold from the Treasury and an inflow of silver. This tampering with the fixity of the standard threatened the Treasury's declared policy of redeeming greenbacks and other government obligations in gold. And, the disappearance of gold from circulation and from the reserves of the nation's banks threatened the sanctity of all contracts made in gold. Professor Laughlin observed that no producer "could feel so entirely sure of the standard of payments that he could, without fear or hesitation, make his estimates a few years ahead."[9]

The Flight of Capital

The silver purchases noticeably affected the confidence of foreigners in the American economy. Many British and French investors expected devaluation of the dollar at the least, with complete financial collapse predicted by some. Capital flowed out of the country as these foreigners sold American securities. Even Americans, in increasing numbers after 1890, began exporting funds for investment in Canada, Europe, and some of the Latin American countries, all of which seemed stronger than the United States.

The inflationary impact of the Bland-Allison and Sherman Acts was particularly important in paving the way for panic and depression. A. D. Noyes, writing in *Political Science Quarterly,* stated that "The coinage of over-valued silver dollars since 1878, and the issue of Treasury notes on silver bullion since 1890, have actually increased the country's silver and paper circulation, between 1879 and 1894, by seventy-five per cent."[10]

W. Jett Lauck, in his study entitled *The Causes of the Panic of 1893,* found that the Sherman Act inflation produced an "absence of the usual stringency in the New York money market" in the fall of 1891. Call loans ranged from two to four per cent, a significant decline from earlier levels.[11]

In 1910 the National Monetary Commission requested O. M. W. Sprague to report on the nation's finances since the Civil War. In his authoritative report, *History of Crises Under the National Banking System,* Sprague found that from January, 1891 to June, 1893, "there was an increase of $68,000,000 in the estimated amount of money in circulation." The effect on bank credit was typical of any "easy money" policy: "During 1892 the low rates for loans were a clear indication that the banks would have been glad to lend more than the demand of borrowers made possible." The classic symptoms of currency inflation were evident, a situation which Sprague found to be unsustainable. He felt that "a situation which demands increasing credits to prevent collapse is certain to arrive at that state in any case, and delay can hardly be expected to improve matters."[12]

End of the Boom

The economy, drugged by easy money, was showing outward signs of prosperity. Unemployment, which had been above 5 per cent in 1890 and 1891, fell to 3.7 per cent in 1892. Crop failures in Europe coupled with exceptional harvests here in the United States boosted agriculture. President Harrison told Congress, "There has never been a time in our history when work was so abundant, or when wages were as high."[13] The boom was, however, only temporary. The twin evils of inflation and uncertainty as to the fixity of the standard were eating at the vitals of the nation's commerce.

Late in January, 1893, prices of staples such as wheat and iron, previously on the rise, began to recede. Price declines across the board foreshadowed a general cyclical contraction. "General business activity," according to Charles Hoffman, "suffered a severe check that was recognized at once in the business journals. The stock market gave ominous signs of falling prices before any sharp drop took place."[14] Banks became apprehensive over the Treasury's loss of gold (as well as their own) and began to contract the pyramid of credit. Loans declined almost 10 per cent from February to the beginning of May. An article in the February, 1893 issue of *Forum* spoke of "a dangerous state of uneasiness in financial circles," and warned that "Fear is an element in monetary conditions which may be as serious in its effects as reason."[15]

A dramatic event took place on February 20. The Philadelphia and Reading Railroad, a chronic invalid which nonetheless had paid its usual bond dividend the month before, collapsed into bankruptcy. "When the end came," writes Rendigs Fels, "it had a floating debt of $18.5 million compared to cash and bills receivable of little more than $100,000."[16] The failure of the Philadelphia and Reading, a firm supported by powerful Wall Street financial houses, caused many businessmen to question the conditions of other railroads and the financial institutions behind them.

When President Harrison left office on March 4, 1893, the Treasury's gold reserve stood at the historic low of $100,982,410—an eyelash above the $100 million minimum deemed necessary for protecting the redemption of greenbacks. Merchants increasingly refused to accept silver in violation of the law and ugly threats of strikes echoed in the nation's factories.

On April 22 the Treasury's gold reserve fell below the $100 million minimum for the first time since the resumption of specie payments in 1879. Bankers and investors realized that the Treasury could not indefinitely continue drawing upon the remaining gold reserve to redeem the Treasury notes of 1890 in the attempt to maintain their value. Banks had to brake their easy money habits and began calling in their loans at a frantic pace. More and more investors began to fear that before securities could be sold and realized upon, depreciated silver would take the place of gold as the standard of payments.

By Wednesday, May 3, tension in the commercial community triggered a massive wave of selling on the stock market. *The New York Times* recorded the events the next day:

> Not since 1884 had the stock market had such a break in prices as occurred yesterday, and few days in its history were more exciting. In the industrial shares particularly, there was a smashing of values almost without precedent.
>
> In the last thirty minutes the brokers on the floor of the Exchange found the quotations on the board of little use.

Figures posted at one moment were valueless the next. In the industrials which were receiving the most punishment prices were dropping a point at a time. The crowds trading in them were made up of shouting men, who struggled about the floor like football players in a scrimmage.[17]

The Panic of 1893 had begun! On May 4 a stock market favorite, National Cordage Trust, went into receivership. Shortly before the panic, Cordage common stock had sold for $70 per share. The plunge was precipitous, as Charles Albert Collman vividly explains:

> In the Cordage Trust circle of the New York Stock Exchange, hats were being smashed, coats torn, cravats ruined. Here was an agony that meant financial life or death to many. Cordage common had gone off 18 points. The preferred had lost 22. Suddenly howls went up from the floor. Those who could distinguish the words, heard the ominous cry: "Nineteen for Cordage!"
>
> The shares, a few moments later, went down to $12.[18]

The Cordage Crash

The Cordage crash was taken as, in Collman's words, "some occult signal for the halting of enterprise."[19] Plants closed their gates and went quickly into receivership. Unemployment rocketed to 9.6 per cent before year-end, nearly three times the rate for 1892. In 1894, an estimated 16.7 per cent of industrial wage-earners were idle.

From January to July, 1893, mercantile failures totaled a remarkable 3,401, with liabilities totaling $169,000,000. The bulk of the losses came after the first week of May. O. M. W. Sprague revealed that the "failures exceeded both in number and in amount of liabilities those which had occurred in any other period of equal length in our history."[20]

Bank failures and suspensions were the greatest on record. Most occurred in the South and West, where the evils of a vicious currency expansion had taken root far more extensively than in the rest of the country.

The economy was going through the pains of liquidation. The malinvestments fostered by the Bland-Allison Act and Sherman Act inflation were being sloughed off. The threat to the de facto gold standard was a factor which no doubt complicated things, heightened uncertainty, determined the timing of the panic, and exacerbated the depression, but the chief responsibility for the crisis rested with the attempted force-feeding of the nation's money supply by government policy. *The Commercial and Financial Chronicle* said as much on July 8, 1893:

> The country is struggling with disturbed credit and the general derangement of commercial and financial affairs which a forced and over-valued currency has developed.... Nothing but corrective

legislation which shall remove the disturbing law, can afford any measure of real relief.[21]

With the economy in depression, the necessity for eliminating the legislation which precipitated the tragedy became increasingly apparent. On June 30, President Grover Cleveland called for a special session of Congress to repeal the Sherman Silver Purchase Act of 1890. "The present perilous condition," he declared, "is largely the result of a financial policy which the Executive branch of the government finds embodied in unwise laws which must be executed until repealed by Congress."[22] The ensuing debate in the Congress was a splendid contest, pitting the forces of sound, honest money against the forces of inflation, in which the sound money men calmly answered the question, "What would you put in place of the silver purchases?" with the single, solitary word, "Nothing!"

Cockran Favors Repeal

On August 26, Congressman Bourke Cockran of New York rose to deliver a memorable address in favor of repeal. The speech has been called the most eloquent and scholarly of the entire debate. The congressman advised his colleagues:

> I think it safe to assert that every commercial crisis can be traced to an unnecessary inflation of the currency, or to an improvident expansion of credit. The operation of the Sherman Law has been to flood this country with paper money without providing any method whatever for its redemption. The circulating medium has become so redundant that the channels of commerce have overflowed and gold has been expelled.[23]

Cockran proceeded to trace the history of coinage in England and explained how debasing the currency led to recurrent depressions. James McGurrin, Cockran's biographer, believes that the subsequent vote in the House of Representatives in favor of repeal "was due in no small measure to Bourke Cockran's matchless eloquence and sagacious leadership."[24]

The repeal bill passed the House on August 28 by a wide margin. President Cleveland's forceful leadership prompted the Senate to do likewise in October. *The New York Times* heralded the occasion: "The Treasury is released from this day from the necessity of purchasing a commodity it does not require, out of a money chest already depleted, and at the risk of dangerous encroachment upon the gold reserve."[25]

An indispensable pre-condition to recovery was accomplished with the repeal of the Sherman Silver Purchase Act. The derangement of the nation's money was a big step closer to solution, though the road to recovery was long and hard. Not until 1897 did depression give way to revival and prosperity. Repeal of the Sherman Act was, by any measure, an act of congressional repentance. Indeed, it was an open admission that the Silver Panic was the offspring of a profligate, overbearing, and irresponsible government. Historian Ernest Ludlow Bogart summarized the lessons of the Panic of 1893:

> It must be said that the net results of this experiment of a "managed currency," that is, one in which the government undertakes to provide the necessary money for the people, were disastrous. For the maintenance of a suitable supply the operation of normal economic forces is more reliable than the judgment of a legislative body.[26]

—FOOTNOTES—

[1]Charles Albert Collman, *Our Mysterious Panics, 1830-1930* (New York: Greenwood Press, 1968), p. 88.

[2]Charles S. Smith, "The Business Outlook," *North American Review,* October 1893, p. 386.

[3]James A. Barnes, *John G. Carlisle, Financial Statesman* (New York: Dodd, Mead and Co., 1931; reprint ed., Gloucester, Mass.: Peter Smith, 1967), pp. 32-33.

[4]Robert F. Hoxie, "The Silver Debate of 1890," *Journal of Political Economy* 1 (1892-1893): 561.

[5]Herman E. Krooss, ed., *Documentary History of Banking and Currency in the United States,* vol. 2 (New York: Chelsea House Publishers, 1969), pp. 1921-1922.

[6]*Ibid.,* p. 1934.

[7]J. Laurence Laughlin, *The History of Bimetallism in the United States,* 4th ed. (New York: D. Appleton and Co., 1900), p. 274.

[8]Isaac L. Rice, "Thou Shalt Not Steal," *Forum* 22 (September 1896—February 1897): 1.

[9]Laughlin, p. 269.

[10]A. D. Noyes, "The Banks and the Panic of 1893," *Political Science Quarterly* 9 (No. 1): p. 15.

[11]W. Jett Lauck, *The Causes of the Panic of 1893* (Boston: Houghton, Mifflin and Co., 1907), p. 80.

[12]O. M. W. Sprague, *History of Crises Under the National Banking System* (Washington, D.C.: Government Printing Office, 1910; reprint ed., New York: Augustus M. Kelley, 1968), p. 158.

[13]Robert Sobel, *Panic on Wall Street: A History of America's Financial Disasters* (New York: Macmillan Co., 1968), p. 243.

[14]Charles Hoffman, *The Depression of the Nineties: An Economic History,* Contributions in Economics and Economic History, no. 2 (Westport, Conn.: Greenwood Press, 1970), p. 107.

[15]Geo. Fred Williams, "Imminent Danger From the Silver Purchase Act," *Forum* 14 (September 1892—February 1893): 789.

[16]Rendigs Fels, *American Business Cycles: 1865-1897* (Raleigh: University of North Carolina Press, 1959; reprint ed., Westport, Conn.: Greenwood Press, 1973), p. 185.

[17]"Industrials Were Hit Hard," *New York Times,* 4 May 1893, p. 1.

[18]Collman, p. 164.

[19]*Ibid.,* p. 165.

[20]Sprague, p. 169.

[21]Hoffman, p. 229.

[22]"Congress to Meet August 7," *New York Times,* 1 July 1893, p. 1.

[23]James McGurrin, *Bourke Cockran* (New York: Charles Scribner's Sons, 1948), p. 135.

[24]*Ibid.,* p. 138.

[25]"Need Buy No More Silver," *New York Times,* 2 November 1893, p. 1.

[26]Ernest Ludlow Bogart, *Economic History of the American People* (New York: Longmans, Green and Co., 1937), p. 693.

VISION

IN his twenty-third book, *Vision* (Foundation for Economic Education, $6.00), Leonard Read speaks deprecatingly of himself. There is nothing in his striving for foresight and insight, he says, that is original "except the phrasing." By the strictest of standards, Mr. Read may be right about himself: morality was pretty well covered in the Ten Commandments, the Sermon on the Mount was preached some 2,000 years ago, and Aristotle, Thomas Aquinas and John Locke, the fathers of political science, have had their thousands of glosses, including those of James Madison and Alexander Hamilton. But there can be an originality in combinations that goes beyond questions of mere phrasing, and Leonard Read need not apologize for his ability to put things in unique perspective.

Surprisingly, in his *Vision*, he comes through as a journalist of great perception. The other day, in the course of tracking down information for a column which I supposed would be original with myself, I interviewed a visitor from Argentina. I had been listening to the complaints of American libertarians who are convinced that there will be no place of refuge if the United States is to go all the way to collectivism. My own hunch is that the southern hemisphere has seen the worst of its misadventures in socialism. Australia, which has had its labor governments, has been moving back from socialist extremes under the enlightened conservatism of Prime Minister Fraser, who believes in linking labor agreements to productivity. In Chile, the Pinochet government listens to economists who were trained at the University of Chicago. As for Argentina, I had heard rumors that it was staging a comeback from the tyrannies and terrorism associated with Peronism.

My Argentinean informant assured me that the rumors were true. Where the Argentine rate of inflation under the dictatorship of Peron's widow had been 900 per cent, it has now been cut to 120 per cent, and is going lower. The present government has been waiving taxes and is about to transfer control of schools and hospitals to the provinces. And all those enterprises that had been seized or "intervened" by the Peronistas are now being restored to private investors. This is being done by a public tender that, in the words of my informant, will be "totally and irrevocably" under way by the end of 1978.

The trade statistics, as offered by the Argentinean Minister of Economy, Martinez de Hoz, are particularly eloquent. Where there was a deficit balance in 1975, there is now an annual export surplus running close to two billion dollars.

Lessons from Afar

I thought I had something of a scoop in a column that suggested the southern temperate zone might be a haven for libertarian spirits if Washington, D.C., succumbs to "worst-case" socialism. But the second essay in Leonard Read's *Vision*, called "Lessons from Afar," shows that Mr. Read was there first. With Dr. Benjamin Rogge of Wabash College, he spent a week in Buenos Aires in June of 1977. What he and Ben Rogge saw "startled" their imaginations. Never had they observed better dressed people. The stores were "aglitter with splendid merchandise and excellent service." The food was excellent—and when Mr. Read, a cordon bleu chef on his own account, says this, it really means something. Shoes cost less than in the U.S.

Mr. Read and Dr. Rogge had not sought their speaking engagements in Argentina. They found the local hunger for the freedom philosophy to be quite fantastic. The army and navy officers, far from entertaining ideas about military control of the economy, were all for a divestiture that would be satisfactory to even the most exacting Austrian economist. We have heard of tyrannical "colonels" governments in Greece, in Egypt and in Peru. But in Argentina, as in neighboring Chile, the "colonels" want to get out of the business of directing the energies of the citizens as fast as they can.

Konosuke Matsushita

Mr. Read continues his reportorial enterprise in his essay on Konosuke Matsushita, the man who developed the biggest and the most profitable business in Japan's history. Matsushita explicitly forbade the pursuit of profit as the motive of his enterprise. Instead, he set his goal as the production of better products at lower and lower prices. Profitability came as the by-product of management efficiency. Good tennis players who concentrate on the next stroke without worrying about the outcome of the game will tell you that the Matsushita formula is psychologically sound. Matsushita was, of course, picking up where the original Henry Ford left off. It is ironical that the Argentineans and the Japanese should now be doing things that the U.S., in its passion for the "planned chaos" of socialism, is forgetting.

The "lessons" that Mr. Read is concerned about do not all come from "afar." Many of them come from his own library. A great reader, Mr. Read excels at relating the separate thoughts of a wide variety of sages to a central idea that clamors for illumination coming from all directions. Thus, in asking the question, "Why Not Separate School and State?," Mr. Read begins with Andrew Dickson White's work on Paolo Sarpi, a Venetian priest who was the first to fight Rome on the issue of separating church and state. Venice, the great world trading center of the sixteenth century, was tired of the pretensions of the popes to temporal as well as spiritual power. There had been popes that were secret murderers and patrons of pornographical plays that would have shocked the most hardened of modern sensibilities. Sarpi's "brilliant reasoning" led eventually to a separation of church and state. This makes Sarpi one of the world's great statesmen.

Absolute Power Is Poison

By relating Sarpi to Lord Acton and Hayek, Mr. Read concludes that there is just as much danger from a government monopoly of education as there ever was from a compulsory state religion. (Absolute power over the mind is poison when, as Hayek has noticed, the "worst get on top.") As a matter of fact, state control of education usually ends by controlling religion by indirection. By absorbing most of the funds available for teaching, the state effectively keeps most parents from sending their children to church-supported schools. The result is a forced secularization of young minds—which leads to a general inculcation that the state itself is God. To be "neutral" on the religious question, then, the state has no more business in running schools than it has in prescribing an official mode of worship.

Mr. Read finds support in the most unlikely places. As a chef and gourmet, he has enjoyed dining in Bresse, where he savored Poularde de Bresse en Creme, one of Brillat-

Savarin's best recipes. He was delighted to discover that Brillat-Savarin, as a supporter of the French Revolutionary orator Mirabeau, called attention to the natural law that subjected the paper assignats to rapid depreciation. It tickles Mr. Read to think that it takes a good cook to know about money.

THE WAR AGAINST THE AUTOMOBILE
by B. Bruce-Briggs
(E. P. Dutton, 201 Park Ave., S., New York, New York 10003)
244 pages ■ $10.95

Reviewed by Allan C. Brownfeld

SLOWLY, it has become clear that a key element in the fight of the environmentalists, the ecologists, and others against the growth of the American economy is essentially an elitist effort to stop things where they are—with those calling for such a stoppage simply being those already at the top. In a sense, such elitists constitute an American "new class" not radically different from the one in Communist states described so well by Milovan Djilas.

Among the crusades being entered into by this new class is a mounting battle against the American automobile.

It is charged that the auto-highway system discriminates against the poor, minority groups, and the elderly. It is said that highways have destroyed American cities, that cars have created congestion, and that the automobile is unsafe. Beyond this, it has been said that auto exhausts are poisoning us, that Detroit deliberately murdered mass transportation and that the auto is devouring irreplaceable energy resources.

This is, of course, a serious indictment—and it is used by those who urge the federal government to fund mass transit systems and who have sponsored legislation which has altered automobile manufacturing in a number of serious—and expensive—ways. Such critics, if they have their way, would sharply curtail ownership of cars in the United States. Individual freedom, some declare, does not involve the freedom to own and drive such a vehicle.

Against this indictment, B. Bruce-Briggs, an historian, urbanologist and policy analyst who has served with the Hudson Institute, has provided a thoughtful and effective response. Beyond this, he counterattacks, arguing that what is at the root of the hostility to the automobile is an elitism which seeks to "rationally plan" the entire American transportation system. The individual charges against the automobile, he states, are just rationalizations for the real purposes of the assault.

"The war against the automobile," the author declares, "and the myths of mass transportation are merely one campaign in an upper-class struggle against the standard of living, individual freedom, and pride of the great mass of the American people."

Americans use the automobile rather than some other form of transportation, Mr. Bruce-Briggs writes, because it best fits their needs. He notes that, "The commuter railroad, the elevated railroad, the subway, the trolley, the bicycle, the motorcycle, and the bus all fought in head-to-head competition with the automobile, and all lost. The reason is not at all difficult to understand—the automobile was the superior system. No one planned that the car should dominate. . . . The automobile is, so far, the most perfect method of intraurban personal transportation yet devised . . . by the criteria of economy, speed, comfort, convenience, and always most important of all, point-to-point delivery, the automobile was, is, and will be far superior."

Americans also like the automobile because it permits them to maximize their individual freedom—complete with all of the eccentricities which such freedom permits, a notion which is always anathema to those who seek rational homogenization of society rather than the "chaos" which results without it. The author writes: "In the automobile, you go where you want when you want, you stop when you want, you eat when you want . . . and select your own route. . . . All costs considered, the car is cheaper than train or bus. . . . It gives personalized flexibility . . . you have control over your own mobility. There are few things in our society, and fewer with each passing year, that offer us so much individual freedom."

To the charge by Ralph Nader and others that auto makers have been indifferent to safety, Mr. Bruce-Briggs responds that, "Detroit has not talked much about safety, to be sure . . . but their engineers and designers have been continuously improving the safety of their products. . . . The windshield improved visibility, as did the windshield wiper and washer. Headlights are an obvious safety device, as are running lights, brake lights, and turn signals. So are effective suspension systems that permit the driver to retain control in emergency conditions, and brakes, which have been steadily improved. The best safety devices are those that *prevent* accidents . . . but most safety 'experts' have concentrated on reducing injury after an accident has occurred."

Concerning Mr. Nader's much discussed volume, *Unsafe at Any Speed,* the author states that, "not even its most devoted apologist would describe it as a serious work. It is a polemic against the automobile expressed in demagogic language. . . . The bias of Nader's book is apparent from his omission of obviously important facts—that the fatality rate had been steadily declining and that several auto manufacturers had attempted safety campaigns to sell cars (Kaiser in 1952 and Ford in 1956), and these efforts had flopped. . . . Perhaps the most revealing aspect of Nader's approach to automobile safety was his claim that the Corvair was more dangerous than other cars. Yet he did not present one scrap of comparative data indicating this was so."

Washington, beginning in the early 1960s, began a serious effort to reverse the choice of individual Americans for the auto and to get people out of their private cars and back into collective "public" transportation. This has involved huge outlays for federal aid to mass transportation which, once constructed, as in San Francisco, remains largely unused.

Mr. Bruce-Briggs does not blame the government bureaucracy: "Even had they been the most creative and competent analysts and managers, their efforts were doomed to failure. By undertaking to get the public out of cars . . . they sought to turn back history. . . . What BART [San Francisco mass transit] has done is to substitute an incredibly expensive and inefficient rail transportation system for a relatively cheap and efficient bus transit system . . . citizens have paid $2 billion down and $300 million a year—just to transfer 100,000 prosperous commuters from buses to BART. . . . The alleged benefits of mass transportation are specious. The federal government has spent $6.5 billion on 'mass transportation' in the last 15 years, an amount more than matched by state and local government. Congestion has not been relieved, pollution has not been alleviated, mobility has not been improved."

It is not the excesses of the automobile which its critics oppose, but the automobile itself. The official who wrote New York City's transportation control plan stated: "My plan was a tool for social change. Very few people grasped that. My crusade is not air pollution: it's the automobile. . . ." And Ralph Nader clearly stated that, "I'm in favor of zero automobile growth." Mr. Bruce-Briggs also charges that "new class" elitists have been joined in their war upon the automobile by "downtown business interests" in some cities. He writes that, "While their fiscal and economic difficulties are grossly exaggerated . . . the problems are real, and these cities are no longer as healthy as their suburban areas. There are vast vested interests in these cities—in banks, in real estate, and department stores; 'suburban sprawl' threatens these investments. . . . Small wonder that newspapers howl about the evils of suburbanization and its vehicle, the automobile—after all, it is obvious that the move to the suburbs has been made possible by automobiles and highways. . . . Among these decaying northeastern cities are Boston, the academic capital of the country; New York, the media capital; and Washington, the political capital. The problems and interests of these cities are thus imposed upon the nation."

The elite which condemns the automobile charges the car with using too much energy. Yet, this same group urges a policy in the energy field which would prevent the development of new coal, natural gas, and petroleum resources. They are on top, the author argues, and care little for the fate of the classes below—classes they believe they have been ordained to control through the making of government policy—"for their own good."

Mr. Bruce-Briggs understands the forces at work in the American society all too well. In this book, he has carefully examined the current crusade against the American automobile, and has placed it in its proper perspective. Perhaps if we understand the motivation of the enemies of economic growth and the free market we will be in a position to better counter their political crusades. In this sense, the current volume is invaluable.
