

# the Freeman

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# the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

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# Beyond Supply and Demand— The Psychology of Inflation

WHEN Alexander Solzhenitsyn declared in his Harvard commencement address that neither diplomacy nor military strength could abolish the danger posed by the Soviet Union, and that only a reinvigoration of moral and spiritual character would be effective in the struggle with Communism, he caused quite a commotion. To his critique of the West as weak and cowardly came a barrage of denunciations, from such varied sources as Mrs. Rosalynn Carter and *The New York Times*. The *Times* editors called him "obsessed" and summarized their view in this way:

At bottom, it is the argument between religious Enthusiasts, sure of their relationship to the Divine Will, and the men of the Enlightenment, trusting in the rationality of humankind.

Indeed, the editors of the *Times* had gone to the root of the issue. For Solzhenitsyn is a religious believer, sure that the Divine Will has revealed certain moral absolutes through the Judeo-Christian tradition, and convinced that they are being eroded—and that in the process our society is crumbling.

Though Solzhenitsyn's remarks were directed primarily at U. S. foreign policy and the international conflict with Communism, they have profound implications for domestic issues, including the economic. The failings he pointed

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Mr. Wolfe is a student at Hillsdale College in Michigan. This article constitutes his award-winning entry in the 1978 "Ludwig von Mises Memorial Essay Contest—The Political Economy of Inflation: Government and Money" sponsored by the Intercollegiate Studies Institute.

out—worship of material well-being, the placing of human “rights” over human obligations, the loss of personal responsibility, and the willingness to sacrifice for the common good—all are intimately connected with our economic problems, and particularly with the phenomenon known as inflation.

From the viewpoint of economics per se, inflation is readily defined: it is the governmental increase in the quantity of money and credit—an increase which has in this century far exceeded the growth in the production of goods and services. But what are the ultimate reasons why the government increases the money supply in this way? It is the contention of this essay that these reasons are directly related to the moral and spiritual failings which Solzhenitsyn discerns in the American people.

One of the great economists of our time who would have been sympathetic with that view is Wilhelm Roepke, a man with some kinship to Solzhenitsyn, both in his courage and beliefs. In his book, *A Humane Economy*, Roepke said of our age of inflation:

... it is the acute stage of a chronic pathological process fed by forces which are now permanently operative, and as such, it is not susceptible to any quick or lasting cure. The inflation of our time is intimately connected with some of its most obdurate ideas, forces, postulates,

and institutions and can be overcome only by influencing these profound causes and conditions. It is not just a disorder of the monetary system which can be left to financial experts to redress, it is a moral disease, a disorder of society. This inflation, too, belongs to the things which can be understood and remedied only in the area beyond supply and demand.

### A Spiritual Illness

Believing with Roepke that inflation is not just a disorder of the monetary system but a moral disease and ultimately a spiritual illness, we will seek here to examine this fundamental problem—to analyze the psychology of inflation. Psychology is used here in the classical sense, that of Plato and Aristotle, to mean the understanding of the order of the soul. And if, as Plato said, society is “man writ large,” then inflation will only be properly understood and possible solutions arrived at through a knowledge of man’s moral and spiritual disorders which cause him to constantly increase the quantity of money, and thus decrease its value.

The term “psychology of inflation” is usually connected with the attitudes of anticipation that cause workers to fight for wage increases large enough to cope with future increases in the cost of living, that cause management to set prices high enough to maintain profits despite increases in future costs—as

well as those attitudes that cause consumers to buy more or less than they ordinarily would because of their expectations about what is happening, and what will happen, to the value of their money. But this approach to the psychology of inflation assumes a long and continuous period of inflation that will go on indefinitely in the future; it is based on inflation as a "given." Our concern here is with the non-economic causes of inflation, and in particular the moral problems that prompt government to increase the quantity of money.

Some observers emphasize the moral problem of greedy citizens who clamor for more government services but are unwilling to pay higher taxes. Others point an accusing finger at selfish workers who want higher wages without increasing production. Still others indict unprincipled politicians who try to win elections by appearing to give the people more benefits without charging them more. To some commentators the moral problem centers around the *hubris* of intellectual planners who believe themselves capable of manipulating the money supply better than the "invisible hand" of the market place.

One thing is certain: inflation is the economy's reaction to a whole range of questionable human desires and actions which place such a strain upon the economy's resources

that its money is debased. As Roepke put it:

If any man should continually sin against all the rules of reasonable living, some organ of his body will slowly but surely suffer from the accumulation of his mistakes; the economy, too, has a very sensitive organ of this kind. The organ is money; it softens and yields, and its softening is what we call inflation, a dilatation of money, as it were, a managerial disease of the economy.

It is the "sin against all the rules of reasonable living" that is, at bottom, the cause of inflation.

### **The Welfare State**

That inflation is closely related to the emergence of the welfare state in the middle decades of this century seems almost self-evident. From the Presidency of Franklin Roosevelt and the time of the Depression (which resulted, incidentally, in large part from the Federal Reserve's gross mismanagement of the money supply) government has expanded enormously into the realm of "social welfare" with such programs as Social Security, welfare payments, unemployment insurance, Medicare and Veterans' payments. Though the Federal budget has mushroomed, taxes have not gone up enough to fully compensate and the result has been repeated deficit budgets. To fill the gap between what is taken in and what is paid out the federal government has

created fiat money—through the printing press and credit expansion—which is inflation.

What are the root moral and spiritual causes that have been responsible for the tremendous growth of the welfare state—a government virtually obliged to spend more than it takes in?

As various scholars have pointed out, since the time of the Renaissance men have exhibited an increasing confidence in their ability to control nature and society, to produce endless progress, and to equalize economic well-being. The philosophers of the Enlightenment preached the great power of man and his rationality as a kind of ersatz religion in place of the Judeo-Christian heritage, and with the advent of modern technology it actually seemed as if man could create a heaven on earth.

At the same time, as the Industrial Revolution created a more complex economy, people could no longer observe many basic economic phenomena with their own eyes. Modern man has become increasingly cut off from a knowledge of scarcity because of the great prosperity he has enjoyed; living in a complex urban society he has lost sight of the relationship between production and consumption, effort and reward. Promoters of the welfare state have even led him to believe that government was a creator

of wealth, and could bestow it on the deserving—if they insisted on getting their due.

Simultaneously, there has been a great decline in ethical instruction and character training in this century—especially in our schools. What Richard Weaver termed the “spoiled child psychology” has emerged. In his powerful little book, *Ideas Have Consequences*, Weaver spoke of modern man as a spoiled child.

The scientists have given him the impression that there is nothing he cannot know, and false propagandists have told him that there is nothing he cannot have. Since the prime object of the latter is to appease, he has received concessions at enough points to think that he may obtain what he wishes through complaints and demands. This is but another phase of the rule of desire.

Having been cut off from his religious faith, or having forgotten its moral implications as they apply to his responsibilities as a citizen, modern man has little or nothing to act as a curb on his appetite. In the past half century government has acted as man’s benefactor in the name of compassion and humanitarianism, assuring men that their appetites are legitimate and that government can gratify them. In reality, however, government has nothing to give some but what it takes from others.

The relatively recent character

changes which have caused the growth of the welfare state, and in turn, which have been encouraged by it, have been noted in studies made by the scholarly research firm of Yankelovich, Skelly and White. As a result of interviewing hundreds of thousands of Americans over the past 30 years, these researchers have discovered three basic changes in modern attitudes which have taken place in a single generation: a loss of autonomy (dependency), focus on self (personalized morality), and the psychology of entitlement (parentalism).

### **The Consumer View**

For centuries it was each man's goal to become self-sufficient and self-supporting—that is, for himself and his family. Knowing that if he did not work he would die, his efforts were vigorously directed toward production. Modern man, deluded that abundance is automatic—a fact of life—and driven by his unchecked appetite, is no longer concerned with his role as producer. In fact, attitude research concerning the contemporary American's economic perceptions shows that he views himself almost entirely as a consumer. Thus we have a citizen whose self-image focuses on his activities in getting and using money and goods, and who is no longer guided or disciplined by objective moral standards. Understandably, he feels himself

entitled to the money and services that Big Brother concedes and even gladly offers him. And power-seeking politicians, eager to get elected, are correspondingly happy to promise the citizen these things—even if it means creating a socialist system with deficit budgets financed by inflation.

Inevitably the inflation gets out of hand and the intervening politician has no answer but controls. Weaver comments:

What happens finally is that socialism, whose goal is materialism, meets the condition by turning authoritarian; that is to say, it is willing to institute control by dictation in order . . . not to disappoint the consumptive soul.

In the end, then, freedom is lost. The passions of the consumptive soul will, as Burke said, forge his fetters.

Another major cause of inflation is institutional interventions by government and labor unions in setting wage rates, combined with a government policy of "full employment."

Through legislating an arbitrary minimum wage—deliberately higher than free market rates—government disemploys the least qualified job seekers, those unable to produce enough to justify that wage. Labor unions, because they have been granted monopolistic and coercive privileges by government, can force wages higher still, and in turn, oblige companies to raise their

prices to levels which consumers will not pay. This would create widespread unemployment if government did not intervene by further increasing the quantity of money—to put more dollars in consumers' pockets, and thus enable them to buy the overpriced goods. The astute labor union leader realizes that this governmental action in effect lowers the wage increases he has gained, and so he in turn puts pressure for another round of wage raises. Under the Full Employment Act government is virtually obliged to further increase the money supply—since politicians find that "jawboning" fails to hold down wages (or prices) and they are unwilling to repeal the labor legislation that prevents the market from determining wage rates.

### **Inflexible Wage Demands**

Above and beyond these "institutional" interventions by government and labor unions, there is still another artificial pressure that tends to push wages above market rates: each person's exaggerated idea of his own worth, combined with the pervasive notion that wages may go up—but never go down. To many an American employee, the idea that his wage might reasonably go down, even if he has become less productive or market conditions affecting his employability have changed, is almost un-

thinkable. To some extent this reveals unawareness of how the market operates. It also indicates that people now have a viable alternative to working: collecting unemployment insurance. And it suggests that the concept of sacrifice and self-discipline in adjusting one's living standard to the circumstances of life has largely been lost.

What produces this array of pressures—from minimum wage legislation, monopolistic unions and unenlightened public opinion? A combination of economic misconceptions, short-sighted workers, the political power of unions, and a kind of maudlin sympathy on the part of many bystanders who may not personally benefit from artificially high wages but urge them out of a love for "humanity" in the abstract. And all these pressures are permitted to operate because government officials, under the influence of Keynesian ideas, hope to secretly lower real wages through inflation to prevent widespread unemployment.

Another category of moral and psychological problems is implicit in the philosophy and policy behind government manipulation of the money supply—a modern day incarnation of the Renaissance conceit that man, through his rational powers, can control nature, society and even the economy, and that unless man steps in, everything will fall apart. Adopting a policy of interven-



tion, government planners have aimed at "stimulating" the economy through fiscal expansion and have attempted a "fine tuning" of the economy in the name of "economic balance."

### **Fine-Tuning the Economy**

All this has been undertaken in the belief that the market place, if left alone, is unable to bring stability and growth and is susceptible to the "boom and bust" cycle. As if the economy were an ill patient, whose body could not regulate itself, government's "doctors" have sought to stimulate or heat up a "cold" economy by fiscal expansion and cool down an "overheated" economy by fiscal contraction, thus creating the boom and bust cycle for which capitalism is blamed. The results have been uncontrolled double-digit inflation and recession. The fine tuners have discovered that instead of "balance," they have only that curious combination of stagnation and inflation known as "stagflation."

Those who believe they can centrally plan and control the economy have made us all victims of their vanity: they are, in effect, setting themselves up as little gods over the economy—and the population. They attempt to balance an economy which they have upset by their interventions, and only manage to add further to the problem. As F. A. Hayek has pointed out, market

prices are uniquely capable of assimilating all the millions of bits of information that allow business to operate smoothly. The interventionists possess very limited information and are essentially tinkering with an economy they know not how to control or to improve. These policies betray an acute lack of belief in true and enduring principles of economics—principles which have the sanction of morality and common sense.

Though government directly intervened to stimulate the economy, and Keynesian economists are responsible for giving government's actions an appearance of intellectual sanction, both business and organized labor must share some of the responsibility. Union leaders will urge inflationary measures to keep their overpriced members employed, and businessmen may join them because a stimulated economy puts more dollars in consumers' pockets and can mean larger sales and higher profits in the short term. Both the union and the business leader suffer from unawareness or rejection of Henry Hazlitt's basic lesson: an economic policy must be evaluated for its effects on the whole population in the long term rather than on a limited sector in the short term. This holds true for all those who clamor for special interest legislation, welfare, and so on. The desire for immediate gratifi-

cation instead of looking to what is best for everyone over a period of time has been a major cause of inflation—governmental increase in the quantity of money and credit.

### **Redeemable in Gold**

And it is here that the very question of the integrity or inviolability of money comes in—and with it the question of the gold standard. For centuries, even in the most turbulent times, money was regarded as inviolable; the notion that money could be created by fiat was put on the same level as forgery and fraud.

The gold standard has traditionally been the method by which the value of money has been anchored to something more stable and constant than the whims of governments. Making paper money redeemable in gold disciplines the politician and obliges him to severely limit the increase in the money supply. Our rejection of the gold standard, while intellectually rationalized, was really a turning away from the responsibilities and norms which this standard requires. Every society has norms by which it must

live if it is not to degenerate into mere anarchy. Roepke concludes:

It is not enough that these should be laid down in constitutions; they must be so firmly lodged in the hearts and minds of men that they can withstand all onslaughts. One of the most important of these norms is the inviolability of money. Today its very foundations are shaken, and this is one of the gravest danger signals for our society and state.

A return to the gold standard will only be feasible when the enduring moral values affirmed by Solzhenitsyn and others live in the hearts and minds of the American people.

Problems are comparatively easy to state—answers come a lot harder. The first step toward overcoming the failings which constitute the psychology of inflation is summed up by the Greek dictum: "know thyself."

Am I guilty of any of the "sins" that contribute to inflation? When Americans can ask and honestly answer that question, and begin to correct their faults, they will have taken a step toward the psychology of freedom and the morality of sound money. ⊕

### **Wilhelm von Humboldt**

IDEAS ON



LIBERTY

IN proportion as each individual relies upon the helpful vigilance of the State, he learns to abandon to its responsibility the fate and well-being of his fellow-citizens. But the inevitable tendency of such abandonment is to deaden the living force of sympathy, and to render the natural impulse to mutual assistance inactive.

Gary North

A few years ago, United Airlines ran television ads that featured the phrase, "you're the boss." Passengers in the ads were constantly being told, "you're the boss" by all the smiling actors who were portraying the United Airlines employees.

# WHO'S THE BOSS ?

One fellow I know always made it a point to enquire on every United flight, "Who's the boss?" Invariably, there would be some confusion, and then he would announce, grinning, "I'm the boss!" He even went so far as to shout "Who's the boss?" into the pilot's compartment, and when the captain dutifully answered, "I am," my friend laughed, "No, I'm the boss." No doubt this endeared both him and the advertising agency to all the United employees who were treated to this little lesson in free market economics.

Actually, my friend is an entrepreneur himself, the owner and operator, along with his family, of America's most financially prosperous profit-making Christian day school. He is also a minister of the gospel. So when he says, "I'm the boss," he mentally qualifies the phrase with "God's the boss, and I'm only his steward." But at the same time, he knows that he, as consuming steward, is indeed the responsible boss; without his pur-



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chase, the seller of goods and services forfeits the profits that might have been made on the sale. The seller who ignores this fact loses.

### Who Owns What?

My friend and his family own the school and its grounds. In other words, they have legal title to it. Since it is profit-making, he has to pay local property taxes on the building and grounds. The civil government holds him liable. The government says that he's the owner, and therefore he is personally responsible for the taxes. It is only slightly ironic that the bulk of his property taxes goes to support the government school system, his zero-tuition competitor. It is also ironic that voters think that he pays the taxes; consumers of the product pay the taxes.

Since he has not incorporated his business, he is a "sole proprietor." The state and national governments therefore classify him as self-employed when they send out the income tax forms. He is the owner of the business, and therefore the tax collectors regard him as self-employed.

Yet if "he's the boss" when he buys an airline ticket, how can he also be the boss when he sells seats in his school? How can both consumer and producer be the boss? If he is self-employed, then who pays him the money for tuitions? Isn't the

boss the one who pays? Aren't the parents of the students the bosses, economically speaking?

The market distinguishes between *owner* and *employer*, even if the tax collector has failed to understand the difference. The owner holds legal title to the property. The employer hires the use of all or part of the property from the owner. The employer, in effect, *rents* the good (including the labor time) owned by the legal owner. The truly "self-employed" person is either a hermit or bankrupt.

The buyer of a resource, or in another example, the person who rents the other person's property for a specified period of time—a seat on a plane, a seat in a classroom, or whatever—offers in exchange some valuable resource. Perhaps the exchange is a bartering of services, or even mutually borrowed tools. Or it may be a transfer of ownership, such as dollars for education. The point is this: two parties claim *ownership* of certain resources, over which they are *legally sovereign*, yet each must regard the other as the boss if he wishes to effect a mutually profitable exchange. If one man wants the use of another's asset, either on a temporary or permanent basis, the private property economy forces him to become humble concerning the asset he presently owns which he wishes to exchange for the other person's asset.

Mutual exchange therefore demands, if not emotional humility, then at least visible, demonstrated humility. The fact that a person desires the use of another person's asset in no way destroys his own *legal* sovereignty over his presently owned assets. He, as a consumer, is sovereign over what he owns. But as a *potential seller*, his legal sovereignty enhances the other man's sovereignty as a potential consumer. The other man has legal control over his asset, too, so that he cannot be compelled to hand it over. Each man has *legal* sovereignty over his own asset; each man has *consumer* sovereignty over his own asset; and each man must honor *the other's* sovereignty, both as owner and consumer, if a mutually beneficial exchange is to take place.

### Consumer Sovereignty

The concept of consumer sovereignty is basic to any market exchange economy. However, the phraseology has alienated some economists. One group, the *interventionists*, hates to use the phrase because they believe that the supposed monopoly power of the *sellers of goods and services* somehow shields them from the non-monopoly position of the *sellers of money*. They limit the use of the term "sovereignty" to the sellers of goods and services; sellers of money are somehow not sovereign. If they were

to rewrite the great Pearl Bailey hit of the 1950s, they would write: "It takes one to tango," unless the State redistributes economic power, of course.

On the other hand, there are some *anarcho-capitalists* who reject the language of consumer sovereignty, because they think it creates confusion in the minds of the public. They think that others will think that "consumer sovereignty" refers to an implied *legal* sovereignty of all potential *sellers of money*. In other words, some people may want to pass legislation compelling sellers of goods and services to sell to any and all people who offer money in exchange. Equal opportunity housing laws would be examples of this kind, or laws compelling hotels to rent rooms to members of minority groups. There is no such thing as legitimate legal sovereignty over the other man's property, the anarcho-capitalists argue; you have to *buy* such legal sovereignty on a coercion-free market.

From a tactical point of view, the anarcho-capitalists have a good point. There is too much confusion concerning legal sovereignty and its function on a free market. Legal sovereignty provides the owner of an asset the power to use or dispose of it as he sees fit. He therefore possesses consumer sovereignty over it. This gives him the *legal right to bid* in the open market for other men's

assets, using all or a portion of his assets as his competitive bid. A person who owns (controls) one asset, and who believes that he could put another asset to even better use, has the legal right to enter the market's auction and place his bid for that other asset. Thus, in the words of W. H. Hutt, who first enunciated the concept of consumer sovereignty in the mid 1930s:

Applying this standard, we must regard property-owners as the custodians of the community's scarce resources. The powers they possess in dealing with these resources must be regarded as delegated by them in its consumer aspect. So conceived, the system which is variously known as "private enterprise" or the "private property system" is simply one in which the task of deciding upon action in response to consumers' will is diffused by a more or less automatic devolution throughout the community.

The key here is the idea of "deciding upon action in response to consumers' will." The *asset owner* decides what his response should be to the various offers by market participants to purchase his scarce economic resource. Should he sell? Should he rent it? Should he hold it for appreciation? Should he consume it himself now or in the future? It is *his* asset. *He* decides. But he decides within a framework of legal ownership and competitive bidding.

Other consumers have the legal right to offer *their* assets—over which they are sovereign as *legal*

*owners* and *potential consumers*—in exchange for my assets, which I legally own and have the right to consume or sell or rent. Each owner therefore has two fundamental legal rights. First, he has the *right to use* his own assets. Second, he has the *right to enter* the competitive auction of the free market in order to offer his assets in exchange for other men's assets. The idea of consumer sovereignty, properly understood, does not imply any legal right to another man's assets. But it does imply the right to impose the *costs* of legal ownership on another property owner.

### The Costs of Ownership

What are the costs of ownership? First, there is the cost of *maintaining the civil government*, which in turn is supposed to enforce lawful contracts, protecting men from theft, coercion, and fraud. This, of course, is denied by the anarcho-capitalists. Second, and equally important (though not fully understood by most observers), is the cost associated with *holding an asset off the market*. If I am offered money or assets for my property, I have to forfeit the use of those assets and that money when I decide to cling to my presently owned asset. No one should be allowed to force me to sell, but no one can or should protect me from the full *opportunity costs* of holding my property. If I forfeit the

use of some asset by maintaining possession of another asset, I thereby pay the market costs of ownership.

When I speak of "holding an asset off the market," I really mean *refusing to sell it* at present prices. No asset can be held off the market, except by concealing its existence, if by "market" we mean the right of others to bid for it. Even an asset that I cannot legally sell—my wife, for example, or some prescription drug that has been assigned by a physician for my own use—may have a market price, though a black market (illegal market) price. While it is not necessarily true that "every man has his price," it *is* true that *every man bears the costs of saying no* to whatever price another person may offer him. Even in the case of an asset which is concealed by an owner from other market participants, the owner pays a price, namely, the forfeited opportunities associated with the highest price that *would have been offered* had others known of its existence. The presence of a free market means that men must bear the costs of ownership.

Consumer sovereignty therefore involves the universal imposition of the full economic costs of ownership, twenty-four hours a day. No owner can escape. If he refuses to sell, he forfeits the use of whatever assets were offered to him in the giant auc-

tion by other owners. This is why ownership in a free market is truly a stewardship function. Men must make decisions in response to the offers of others. The old evangelical slogan, "no decision is nevertheless a decision," is valid when applied to market transactions, including the refusal to make a transaction. There is no escape from the responsibilities of ownership.

### "I'm the Boss, Sir"

United Airlines (and the banks that have advanced the money) is the boss. The directors can decide, in the name of the owners of United Airlines stocks, whether or not to fly the airplanes. But the directors cannot make this decision at zero cost. Always before them are the competitive bids of potential paying passengers, not to mention the competitive offers of United's rivals: the other airlines, bus lines, auto rental services, used car lots, and even a few unprofitable passenger train lines (that the government forces the trains' managements to keep in service). United Airlines is the boss, for as long as the firm is making profits and not being forced into bankruptcy by management's failure to predict future consumer demand and meet it at a price consumers are willing to pay.

The same is true of all consumers. We are the bosses over our money. But if we need to get from here to

there—if we find it in our self-interest to do so—then we want others to compete for our money. We want to get there inexpensively.

*Present legal owners* therefore have assets that enable them to become *future consumers* of other people's presently held assets, *if* they offer the right price. The free market allows each potential future consumer to impose costs—stewardship costs—on any other present owner. This process reminds all owners of their responsibilities. No one can escape either the responsibilities or the costs of ownership. By keeping

owners reminded of their economic responsibilities as owners, the free market auction process imposes the costs of being arrogant. Legally, owners can be arrogant in their ability to control an asset, but economically they cannot do so at zero cost. A consumer can legally maintain his sovereign ownership, but never as an autonomous being, for to be autonomous, a person must be free from the economic (scarcity) constraints of market prices and competitive bids from others. *Consumer sovereignty therefore is a denial of economic autonomy.* The market is indeed a social institution. ☉

## Social Harmony

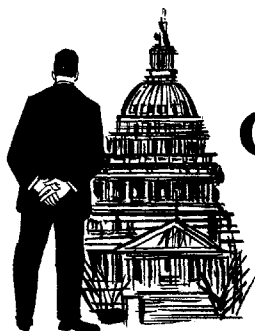
If the less productive members of a society truly seek security, let them rally to the defense of the freedom of choice and freedom of action of those who work for a living and who are personally productive. Let them voluntarily deal with one another in a market place kept free of compulsion. Such voluntary trading directs the instruments of production and the means of economic security into the hands of those most capable of serving all mankind. It promotes mutual respect for life and property. It stimulates every individual to develop his own talents to their maximum productivity. It encourages saving instead of squandering. The free market, and not its displacement by governmental controls, is the only route to the kind of personal security which makes for harmonious social relationships.

IDEAS ON



LIBERTY





# Christian Principles and Public Policy

WHAT has been called "the greatest scandal in the scientific domain" in the modern era was the work of the Russian biologist Trofim D. Lysenko.<sup>1</sup> This charlatan rejected the genetics of Gregor Mendel, much to the disgust of competent Russian scholars. However, with Stalin's support, he dominated the Soviet scene for decades. Many reputable Russian scientists lost their jobs, some their very lives, for even mildly resisting the fashion. On the national level this absurd theory is said to have done considerable damage to Russia's ailing agriculture.

When Khrushchev was deposed in 1964, the Lysenko era was over at last. Millions of textbooks were scrapped and a hundred thousand biology teachers were retrained. As Eugene Lyons says, "Intelligent Soviet people are frankly ashamed

and embarrassed." But is there any more cause for embarrassment over this needless blunder than for what many so-called social scientists of both East and West have been doing and writing for a long, long time?

Perhaps Bertram D. Wolfe summed up the Lysenko delusion best in this brief statement: "Laws of heredity were passed by the Politburo." While we would reject with scorn any attempts to legislate the basic principles of genetics, we have left the door wide open to the same type of thinking by social engineers in charge of a multitude of experiments in every aspect of our national life. If we can't abolish the laws of Nature in the physical sciences and biology, can we do so in the social, political and economic realm? Yet we try to every day.

Perhaps one of the best examples of an attempt to beat what has long been considered a basic principle of politics and economics was the

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change from silver to base-metal coinage a dozen years ago. As silver change was rapidly disappearing, there were those who reminded us that Gresham's Law<sup>2</sup> was operating once more. This was stoutly denied by prominent people in the national government, but were they right?

### Bad Money in History

What is Gresham's Law and by what authority did he proclaim it? It seems that early in the reign of "Good Queen Bess" England was much plagued with monetary problems. When Elizabeth mentioned her perplexity in the presence of her councilors, Sir Thomas Gresham expressed amazement that Her Majesty was unaware that "Bad money drives out good." This was back in 1558, but Gresham claimed no credit for discovering what he regarded as a truism. Some forty years earlier Copernicus,<sup>3</sup> the Polish astronomer, wrote a little essay on money which shows he was also aware of the principle. Others knew about it at least as far back as the Golden Age of Greece nearly twenty-five hundred years ago. Aristophanes mentioned in his celebrated comedy, *Frogs*, "bad citizens are preferred to good, just as bad money circulates while good money disappears."<sup>4</sup> Apparently, he assumed that this was common knowledge in his time too.

One might add as a corollary to

Gresham's Law in this age of inflation that a money tends to fall in value to the worth of the material of which it is made: if money is paper, it eventually sinks to the value of last week's daily papers. Monetary practices of the nations of the world, including our own, are daily making that truth self-evident. But how long will it be before ordinary common sense becomes the basis for national policy and we return to sound money?

Much confusion grows out of the failure to understand how the operation of some principle, like Gresham's Law, differs from the working of gravity or inertia. When silver change was disappearing a dozen years ago, some people saw no practical difference between the old coins and the new. To them it was all just money. Does this mean that Gresham was wrong? Not really, but it does illustrate the fact that, since economic laws depend on human behavior, they may seem not to operate in a given situation or seem even to work in reverse in the short run.

According to the Law of Supply and Demand, customers are supposed to buy less at high prices and more at low prices. Henry Ford<sup>5</sup> believed this, so he reduced the price of his Model T from \$950 in 1909 to \$290 in 1926, and sold fifteen million of his cars in the process. This should be adequate proof of the prin-

ciple. However, he was then forced by declining sales to go to more expensive models, because other factors were becoming more important than the price.

Gravity doesn't work so haphazardly, but is utterly mechanical in its operation. Yet, there are economic laws at work which must ultimately be reckoned with by communists, socialists, capitalists and even primitive men. And this has always been so, as an English writer so well expressed it more than a half century ago: "Guilds, Governments and Soviets may come and go. But under them all, and, if need be, in spite of them all, the profound adjustments of supply and demand will work themselves out and work themselves out again for so long as the lot of man is darkened by the curse of Adam."<sup>6</sup>

### **God Gave Us Guidelines and Options of Error**

The Creator did not simply make us creatures of instinct, although that would have been an easy way of "uniting all in one unanimous and harmonious ant-heap," as Dostoyevsky<sup>7</sup> pointed out, but He left us the options of error and disobedience. Since man's behavior is not programmed, God gave us guidelines, if we would just follow them. But we don't break God's Law in any sphere; we only shipwreck ourselves on the rocks which we

could have avoided, if we had steered our course aright.

Another distinction we need to make is between sin and human error. Let us consider the case of a doctor who was busy spreading the Gospel and infection in an army hospital during the Civil War. Was he a saint or a murderer? Since medical science had not yet discovered the germ theory of disease, there were many fine Christian doctors who were spreading death through the wards even more effectively than they were spreading the Word of Life. They did not realize that they were actually engaged in bacterial warfare against their own soldiers.

One is reminded of a wise saying by the German poet Goethe: "Nothing is more frightful than ignorance in action." The doctors' motives may have been pure, but their hands, instruments and bandages were not. Yet the error of their ways would soon be common knowledge, since the first antiseptic operation was performed in Scotland by Joseph Lister in August of 1865, less than six months after the close of the Civil War in America. While Lister's new technique did not catch on immediately, the spread of this revolutionary scientific innovation was rapid once the word began to get around.

The appalling sanitary situation in the middle of the last century,

even in peace time, may be judged from the comment of a British doctor of the time: "A man laid on the operating table in one of our surgical hospitals is exposed to more chances of death than the English soldier on the field of Waterloo." The great hazard was infection, of course, and had been over the ages, but a simple principle went far in correcting the situation both in surgery and in public health.

The relationship of vast detail to a basic principle may be noted from this comment on Lister's work: "Joseph Lister's manifold labors may be read in the volumes of his *Collected Papers* (1909), but his life-work is summed up in a phrase: he made surgery clean."<sup>8</sup> Would that other human problems could be as easily solved. Here, knowing what to do went far in providing a remedy. Unfortunately, the solution isn't usually that simple. Men often cling to their errors as they do to their sins.

### Slavery and Tariffs

The Civil War also well illustrates man's unwillingness to change and his persistence in doing wrong, even when it would seem that he ought to know better. In 1850, a little more than a decade before the outbreak of the Civil War, a popular French political pamphleteer, Frederic Bastiat, wrote an essay called *The Law*.<sup>9</sup> He commented most favorably on

the political institutions of the United States, but thought that even here there were two violations of public morality which presented a grave danger to the nation: "The question of slavery and that of tariffs. . . ." Since the English, whom Bastiat knew well, had recently finished a successful campaign to rid themselves of these two evils and since the conflict over slavery and tariffs in America would soon "lead to the dissolution of the Union," as he foresaw, his observations were both timely and prophetic.

The contrast between the British and the American experience in dealing with these two problems is fascinating and instructive. The English freed the slaves in England in 1772, forbade the transportation of slaves in British ships after 1807, and emancipated the slaves on the plantations in the colonies, particularly the sugar islands of the Caribbean, in 1834.<sup>10</sup> In the next decade they began the abolition of their tariffs and had soon accomplished this also. In both cases Christian statesmen led the way and the Christian community provided much of the political support. They also brought this to pass without war or other major upheaval.

We freed our slaves belatedly by a long and tragic "War between the States" and have not yet faced up to the protective tariff problem, which has plagued us throughout our his-

tory. Since the resentment of the South against Northern tariffs was as much a cause of the Civil War as Northern objection to slavery, and even nearly started war a generation before it did happen, Bastiat's concern was not unfounded. Let us try to understand why we were less successful than our British brethren.

Since slavery is the more obvious of the two evils, let us first compare English and American abolition efforts. To begin with, it may be acknowledged that slavery was more deeply embedded in American life and politics than it was in England. Sad to say also, the Southern obsession with slavery increased as we move from 1776 with its Declaration of Independence and 1787 with its Constitutional Convention on into the early decades of the nineteenth century. The usual explanation is the invention of the cotton gin in 1793 by a Yankee schoolteacher, Eli Whitney. Arnold Toynbee<sup>11</sup> regrets that slavery was not abolished before the Industrial Revolution made the textile industry big business and Whitney's invention had made cotton "King" in the South.

### Concerned Statesmen

It is interesting to note that Jefferson and other Virginia statesmen who were also slaveholders were apologetic for their "peculiar institution" and wished it would go

away. The English even thought that the Declaration of Independence<sup>12</sup> would free everyone over here, although we were not quite that consistent. Still the national conscience was troubled, as is evident from the following remarks of a Virginia planter, Colonel George Mason, as the issue was being debated at the Constitutional Convention:

The western people are already calling out for slaves for their new land. Slavery discourages arts and manufacture. The poor despise labor when performed by slaves. They produce the most pernicious effect on manners. Every master of slaves is born a petty tyrant. They bring the judgment of Heaven on a country. As nations cannot be rewarded or punished in the next world, they must be in this. By an inevitable chain of cause and effect Providence punishes national sins by national calamities.<sup>13</sup>

In addition to discovering another principle—God "punishes national sins by national calamities," if the Colonel is right—it is interesting to compare his condemnation of slavery with the Biblical defense of the evil in the years before the Civil War. It is also fascinating to compare English abolitionists with our own: William Wilberforce, for instance, was a patient Christian statesman who knew how to hate the sin without hating the sinner, while John Brown of Harpers Ferry was a fanatic. Therefore, Parlia-

ment was able to make emancipation at least palatable to the sugar planters in the Caribbean in 1834: the English government paid the masters twenty million pounds for their slaves.

While there were reasonable Americans, reason failed us; but we did pay for our animosity. It is interesting to note that an official of the U.S. Treasury estimated in 1869 that the cost of the Civil War was "... three times as much as the slave property of the country was ever worth."<sup>14</sup> This figure, of course, does not count the "blood, sweat and tears." Now it should be obvious that a more reasoned and Christian approach to American slavery would have been most appropriate, but this hides a deeper issue which will come up in the discussion of their economic problem—a problem which is still with us.

While Northern propagandists tried to picture the Civil War as a holy crusade for freedom, Southerners felt otherwise and with some reason. When the triumph of the new Republican party in November of 1860 made higher tariffs certain, Jefferson Davis insisted that the attempt to limit the extension of slavery was not from humanitarian motives, but to insure that the North would dominate the nation for selfish reasons:

It is that you may have a majority in the Congress of the United States and

convert the government into an engine of Northern aggrandizement. It is that your section may grow in power and prosperity upon treasures unjustly taken from the South, like the vampire bloated and gorged with the blood which it has secretly sucked from its victim. . . .<sup>15</sup>

Davis, of course, was protesting against high import duties on goods bought from England in exchange for Southern cotton. He felt, as Southerners did, that they could never prosper as long as they paid high taxes to promote Northern prosperity. The larger question is whether the government should be busy granting favors to any section, party or interest, or should it simply be concerned with administering justice for all.

In his study, *The Evolution of Political Thought*, Parkinson<sup>16</sup> notes the observation by the ancient Greeks that when their city states became democracies the people would promptly bankrupt their governments by demands for special favors. This collapse then led to a dictator (a tyrant, to use the Greek). Parkinson says the Greeks regarded this shift from democracy through bankrupt socialism to dictatorship as "almost a law of nature." Perhaps we have another principle here, a "law of nature" which makes democracy impossible except as a short-run expedient. Since other forms of government are not very attractive either, this is a serious matter.

THE LAW sometimes places this whole apparatus of courts, police, constabularies, and prisons at the service of the plunderer, and puts the plundered person, when he defends himself, in the prisoners' dock. In a word, there is *legal plunder*. . . . How is it to be recognized? Very simply. All we have to do is see whether the law takes from some what belongs to them in order to give it to others to whom it does not belong. We must see whether the law performs, for the profit of one citizen and to the detriment of others, an act which that citizen could not perform himself without being guilty of a crime.

FREDERIC BASTIAT, *The Law*

In *The Law*<sup>17</sup> Bastiat said that in an oligarchy the few plunder the many and in a democracy "universal plunder" becomes the rule (to him, "The state is the great fiction by which everybody tries to live at the expense of everybody else"). He says that the "Absence of plunder is the principle of justice, of peace, of order, of stability, of harmony, of good sense." This would mean a government which confined itself narrowly to the task of administering justice within the nation and defending the frontiers, as Adam Smith<sup>18</sup> urged in *The Wealth of Nations*, published in 1776.

The Victorian system was, of course, the application of the ideas of Adam Smith to the economic and political life of Great Britain. Victorians believed that a few basic principles should serve as guidelines in the decisions for the running of the

nation and of the world, and that these "Laws of Nature" were built into the constitution of the universe by the Creator Himself. The Judge of all the earth becomes the court of last resort. Were they right, or should the government dominate every aspect of life, as it is doing more and more?

American conservatives have long been frustrated because the general public does not "buy" their arguments for limited government, a revival of the "work ethic," and other sound policies. The appeal is usually made in the name of efficiency, greater productivity, and maximizing profits. Unfortunately, that approach often misses the mark—life doesn't seem to work out that way. I knew a few poor farm laborers during the Great Depression who stayed off W.P.A. because they had tender consciences. They could have

gotten twice as much money for doing half as much work, but they would have had to lie to do it (they would have had to swear on their applications for government jobs that they couldn't find work, when they knew very well that farmers couldn't get help).

While it is true that the nation would be better off over the long run if people in general did what was right, the connection between virtue and reward for the individual may be so remote, and even uncertain, that it is almost silly to suggest it. Try in this age to convince a bureaucrat, one who is doing less than nothing, that he should resign to reduce the national budget. True, perhaps, but who listens? The worthless government employee is just trying to minimize his efforts and maximize his income. That sounds like good economics, doesn't it? It would be better to appeal to his conscience—if he has one.

### **Men of Conscience**

We forget that the men who made that remarkable era of freedom in England back in the last century were men of conscience. Is sound social, political and economic theory simple Christian ethics? Reformers in England once believed this and their considerable success suggests that their ideas and actions might well serve as examples for us in this time of national and global crisis. It

should be noted also that they secured someone else's freedom before they got around to care for their own self-interest: the abolition of slavery in British territory was accomplished before the free trade movement was started. The thinking was the same in both cases, as they themselves insisted.

As the slavery issue was being debated in Parliament in the early years of the last century, practical politicians who were making money from slavery objected that the abolitionists were arguing the case on "abstract principles of right," and were ignoring the heavy losses to business that would come with the triumph of their cause. Wilberforce<sup>19</sup> replied that a "Christian country should be glad to give up profits which are made out of human shame and misery." He assured them that the laws of the nation should be founded "on the great and immutable principles of truth, justice and humanity." This same viewpoint dominated the campaign for free trade a little later, during the early years of Victoria's reign, when statesmen such as Richard Cobden and John Bright consulted the Bible as they did business statistics.

In the early decades of the last century it was a common saying in England that "the school master now walks abroad in English politics,"<sup>20</sup> since the appeal to truth requires thought and study, while the



pragmatist makes up his rules as he goes along. According to Jacques Barzun,<sup>21</sup> this era "has rightly been called the Golden Age of Intellect." Barzun notes correctly that the relationship today between a labor leader and his Ph.D. consultant in economics is not between their intellects; the Ph.D. is a flunky helping his pragmatic boss do what he would do anyway without his assistance. He is in much the same position as a

soothsayer prostrated before the throne of an Oriental despot: he says what he is expected to say. When principles are ignored and truth is forgotten, learning loses its reason for being; the "truth" simply becomes the lie that Big Brother finds most convenient at the moment. Freedom disappears, for liberty and truth are inseparable. "And ye shall know the truth, and the truth shall make you free" (John 8:32). ☉

### —FOOTNOTES—

<sup>1</sup>Eugene Lyons, *Workers' Paradise Lost* (New York: Twin Circle Publishers, 1967), pp. 321-325.

<sup>2</sup>William F. Rickenbacker, *Wooden Nickels* (New Rochelle, N.Y.: Arlington House, 1966), pp. 57-96.

<sup>3</sup>Angus Armitage, *The World of Copernicus* (New York: New American Library of World Literature, 1947), pp. 85-87.

<sup>4</sup>Elgin Groseclose, *Money and Man* (New York: Frederick Unger Publishing Co., second edition, 1967), p. 26.

<sup>5</sup>Roger Burlingame, *Henry Ford* (New York: New American Library of World Literature, 1954), p. 59 and pp. 86-87.

<sup>6</sup>Hubert D. Henderson, *Supply and Demand* (London: Pitman Publishing Corporation, 1921), p. 17.

<sup>7</sup>Fyodor Dostoyevsky, *The Brothers Karamazov* (New York: New American Library, translation by Manuel Komroff, 1957), p. 237.

<sup>8</sup>Victor Robinson, M.D., *The Story of Medicine* (New York: The New Home Library, 1943), p. 423.

<sup>9</sup>Frederic Bastiat, *Selected Essays on Political Economy* (Princeton, N.J.: D. Van Nostrand Co., translation by Seymour Cain, 1964), pp. 59-60.

<sup>10</sup>J. C. Furnas, *The Road to Harpers Ferry* (New York: William Sloane Associates, 1959), pp. 245-285.

<sup>11</sup>Arnold J. Toynbee, *A Study of History* (London: Oxford U. Press, 1939), Vol. 4, pp. 137-141.

<sup>12</sup>Dwight Lowell Dumond, *Antislavery: The Crusade for Freedom in America* (Ann Arbor: The University of Michigan Press, 1961), p. 25.

<sup>13</sup>Garet Garrett, *The American Story* (Chicago: Henry Regnery Co., 1955), p. 87.

<sup>14</sup>H. U. Faulkner, *American Economic History* (New York: Harper and Brothers Publishers, seventh edition, 1954), p. 508.

<sup>15</sup>*Ibid.*, p. 308.

<sup>16</sup>C. Northcote Parkinson, *The Evolution of Political Thought* (New York: The Viking Press, 1958), p. 241.

<sup>17</sup>Bastiat, *op. cit.*, pp. 62-64.

<sup>18</sup>Adam Smith, *The Wealth of Nations* (New York: The Modern Library), p. 651.

<sup>19</sup>W. E. F. Ward, *The Royal Navy and the Slavers* (London: George Allen and Unwin Ltd., 1969), p. 19.

<sup>20</sup>Asa Briggs, *Victorian People* (New York: Harper and Row, 1955), p. 209.

<sup>21</sup>Jacques Barzun, *The House of Intellect* (New York: Harper and Brothers, 1959), pp. 10-11.

Henry Hazlitt

# The Road Not Taken



THE Foundation for Economic Education, which publishes *The Freeman*, was set up in 1946. This seems to me as appropriate a time as any to review what has happened since its establishment in the realm of the government interventions and economic controls—the prohibitions and compulsions—that FEE was set up to combat.

In 1946, of course, these controls were already established over a wide-ranging area. A formidable network of what might be called “traditional” controls was already in

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existence in the early 1930s; but this was enormously extended and tightened by the advent of the New Deal. It was then established that the government could repudiate with impunity its most solemn pledges—the gold clause, for example; that it could abrogate contracts containing or assuming this clause; that it could allow labor unions to resort to violence and vandalism with relative immunity (as in the Norris-LaGuardia Act of 1932); that the government could act as a union-organizing agency, and force employers to “bargain collectively” with such unions—that is, to make at least some concessions to their demands—as in the Wagner Act of 1935. And so on.

But let us now come to 1946, the

year FEE was founded. That was the year when the International Monetary Fund, which had been set up by the Bretton Woods Agreement of 1944, began to operate. The IMF had been set up ostensibly—believe it or not—to “stabilize” currencies. And this was to be done by phasing that absurd and tyrannical thing, the gold standard, out of the monetary system. Instead, the member countries pledged themselves to keep their currencies convertible at a fixed rate only into the dollar. If the dollar were kept convertible into gold, it was assumed, that would be sufficient to stabilize the whole world currency system and make the value of each national money unit dependable.

Of course none of the Fund’s general rules were expected to be obeyed too strictly. That would have interfered with the freedom of each country’s monetary authorities to manipulate their currency in the way that seemed to them most expedient at any given moment. Therefore, it was explicitly provided in the Fund’s Articles of Agreement that any country could devalue its own currency at least 10 percent in any one step, and it was explicitly stipulated that “the Fund shall raise no objection.” In addition, it was understood that the Fund was to come to the rescue of any country whose currency got into trouble, even through its own inflationary policies. The

stronger currencies were to support the weaker ones, thus insuring that the stronger would also be weakened.

### **The Results of Bretton Woods**

We all know now what this finally led to. The American monetary authorities could not bring themselves to take seriously the grave responsibility they had assumed in agreeing to make the dollar the world’s anchor currency. Keeping the dollar convertible into gold, even if only at the demand of foreign central banks, seemed to them a mere technical requirement, an unnecessary annoyance and burden imposed upon them by some still persisting superstitions about gold. As the U.S. increased its paper-money issue, conversion became increasingly inconvenient. It practically stopped de facto in 1968, and in August, 1971, it was stopped openly and officially. Since then practically every nation’s currency has become an irredeemable paper currency. Every currency fluctuates every day in terms of every other. Money values, world trade, and capital flows become more and more disorderly and unpredictable.

And all this has happened because the world’s so-called statesmen and national monetary managers, when they met at Bretton Woods in 1944, were thinking only of their own immediate problems, and had no un-

derstanding of what the consequences of their patched-up scheme would be in the long run.

The same kind of shortsightedness has been the common characteristic of nearly all the government interventions of the last thirty years. We may select our examples almost at random.

### **Minimum Wage Laws**

Take minimum wage laws. A national minimum wage was first enacted in this country in 1938. At that time the average hourly wage in American manufacturing was about 63 cents. Congress set a legal minimum of 25 cents. In 1945, the year before FEE was set up, the average factory wage had risen to \$1.02 an hour, and Congress raised the legal minimum to 40 cents.

It all seemed very reasonable, very compassionate, very necessary, to those who urged and those who voted for it. Could the country tolerate ruthless exploitation of unskilled workers with no bargaining power? Could it tolerate "starvation" wages? The obvious remedy seemed to be to prohibit such wages. Employers were forbidden to offer jobs at wages below the new legal minimum.

An ironic thing happened. As increased capital investment, increased productivity, and competition among employers (all with a little help from inflation) kept rais-

ing the average hourly dollar wage, and making each existing legal minimum wage level obsolete, Congress acted as if its prescribed minimums had brought this rise about. It kept amending the law every few years. It kept raising its minimum wage faster than the market was raising the average wage. It acted on the principle that whatever average wage the market produced, it would never be high enough. Congress has acted as if by constantly boosting the legal minimum it could hurry the market along. The minimum wage, at \$2.65 an hour in 1978 and \$2.90 in 1979, is scheduled to keep going up to \$3.35 an hour on January 1, 1981.

Is this helping the poor? Is it helping the unskilled worker? The results show that it is doing exactly the opposite. Minimum wage laws overlook the obvious. It should be obvious that the first thing that must happen when a law prescribes that no one shall be paid, say, less than \$106 for a forty-hour week, is that no one who is not worth \$106 a week to the employer will be employed at all.

And if statistics can show anything they show this. The minimum wage laws were passed to help especially the unskilled, the teenagers, and the blacks. We have no comparative figures on the unskilled as such, but we do have comparative figures on the teenagers and the

blacks. There has always been a tendency for teenage unemployment to run at a somewhat higher rate than that of men and women twenty years old and over, but it took the minimum wage levels and their successive increases to make the contrast a startling one.

It is difficult to get comparative statistics going back beyond 1948. In that year the unemployment rate for both white and non-white teenagers stood at 10 percent. But as the minimum wage rate was jacked up year by year, not only did the overall teenage rate of unemployment keep rising, but it kept rising much more for black teenagers than for white. In 1954 unemployment for black teenagers stood at 14.9 percent against 13 percent for white. By 1968 the black teenager unemployment rate had risen to 26.6 percent against 11.6 percent for whites. In 1977 it rose to 37 percent for black teenagers against 15 percent for white. Between 1977 and 1978 unemployment for 16 to 17 year-old blacks rose from 38.7 percent to 50.4 percent.

So the minimum wage law and its successive hikes has simply driven into unemployment the very people it was most designed to help. The potential production of these people has been lost to the economy.

And what is the response to this consequence by the Congressmen who voted for the law and for the

annual increases? They have simply ignored it. They would consider it political suicide, in fact, to oppose the minimum wage law.

### **Unemployment Insurance**

A similar history can be traced for unemployment insurance. This was one of the great New Deal "reforms" adopted in 1935. The argument for it was appealing. Workers suffered terrific hardships when they were laid off. Even when they were working, they lived in dread of sudden unemployment. Certainly they should be assured of unemployment compensation when they were forced to look for new jobs.

The first State-Federal unemployment insurance programs, beginning about 1940, were surrounded with safeguards. Unemployment compensation was to be about one-half of the worker's previous earnings, but it was to run typically for only sixteen weeks, and there was to be at least a two-week waiting period for the worker, after losing his job, before he would be eligible for that compensation. But gradually, all these safeguards were weakened or removed. The typical waiting period was reduced from two weeks to one, and in some States to none at all. The period for paying the compensation was extended from sixteen weeks to twenty, then to twenty-six weeks, then to thirty-nine (in an emergency, of course),

then in some States to sixty-five weeks. In 1969 President Nixon called upon the States to provide for maximum weekly benefits of two-thirds of the previous average weekly wages instead of one-half.

The result of prolonging and increasing unemployment compensation, naturally, has been to prolong and increase unemployment. It was found a year or so ago by a committee of the State Senate of New York that a number of New Yorkers repeatedly worked the minimum twenty weeks required and then collected sixty-five weeks of unemployment benefits. Though unemployment compensation may be only one-half of previous working salary, the unemployment compensation is tax-free, so the net loss from not working is sometimes quite tolerable. In a typical case in Pennsylvania, for example, a man whose previous weekly take-home pay was \$140 can draw \$96 a week in tax-free compensation. A study made by the U.S. Department of Labor itself found that "an increase in unemployment benefits leads to an increase in the duration of unemployment." This country can have as much unemployment as it wants to pay for.

### **Rent Control**

Still another example of our shortsighted legislation is rent control. This is usually imposed in the

early stages of an inflation. As the inflation goes on, the discrepancy between the rent the landlord is allowed to charge, and the rent necessary to yield him a return comparable with that in other investments, becomes greater and greater. The landlord soon has neither the incentive to make repairs and improvements, nor the funds to make them.

When the rent control is first imposed, the government promises that new buildings will be exempt from it; but this assurance is soon repudiated by a new law. It becomes unprofitable to build new rental housing. New mortgage money for it becomes increasingly difficult to obtain. Landlords of old housing often can no longer supply even heat and other essential services. Some cannot even pay their taxes; their property has in effect been expropriated; they abandon it and disappear. Old rental housing is destroyed quicker than new housing is built.

Some favored tenants, already in possession, are momentary beneficiaries, but tenants or would-be tenants as a whole, in whose interest the legislation has been professedly passed, become the final victims. The irony is that the longer rent control is continued, and the more unrealistic the fixed rents become as compared with those that would yield an adequate return, the more certain the politicians are that any

attempt to repeal the rent control would be "politically suicidal."

### **The Energy Crisis**

The limits of space compel me to pass over any analysis of a score of other government interventions in recent years in the economic field, and to come immediately to the two or three that mainly characterize the economic situation today, not only in our own country, but throughout the world.

In 1974 the Organization of Petroleum Exporting Countries—the OPEC—quadrupled crude oil prices. It is instructive to notice that this was done by a combination of governments. They did what private industry is always accused of doing—forming a monopolistic conspiracy—but what the hundreds of private oil well owners and companies would never have been able to impose and enforce no matter how much most of them might have wanted to do so.

This OPEC action produced a profound economic shock throughout the world. And what was the response of our own government? Did it retain or insist on a free market to give the greatest possible incentive to petroleum production and exploration on the one hand and economy in consumption on the other? No. It did the exact opposite. It imposed an elaborate and incredibly complicated set of price controls on domes-

tic crude oil and on natural gas, to encourage continued wasteful consumption and to reduce the incentives to output and exploration. It preferred to protect the short-term interest of American consumers at the cost of their real long-term interest, and at the cost of both the short-term and long-term interest of American producers.

### **Rampant Inflation**

Now let us turn to the government policies that most obviously affect us in all our daily activities—government finances and monetary inflation. Throughout our history as a nation, when we were on the gold standard, federal government surpluses were the rule. Deficits—except in the two world wars—were rare and comparatively small. But in 1931, we began to run chronic deficits—in the first few years by accident, and then by deliberate policy. In the last ten years or so, these deficits have been acceleratively larger. These deficits—again since the early 1930s—have been accompanied by mounting monetary inflation. The dollar's purchasing power has been reduced, for example, to about 22 cents compared with that of 1940.

To bring this inflation to an end, what policy must we follow in the immediate future? Obviously what needs to be done is to bring the budget back to balance at the ear-

liest possible moment. Obviously what needs to be done is to halt the accelerative increase in money and credit, to stop printing more paper dollars. But the situation is now so bad that practically no politician dares to suggest this course.

About half of our Federal expenditure programs consist in the transfer of income from the wealthy or the middle-classes to the so-called needy. In other words, they force the productive to support the unproductive. In the official budget these programs are not gathered under a single head. But there is a table, on page 191 of the official budget for fiscal 1979, called "National Need: Providing Income Security," which estimates the total of such expenditures for fiscal 1979 at \$160 billion. Who is there—among our office holders—who is going to suggest cutting these expenditures? And by how much? And who is there who is going to suggest halting the reckless expansion of our money supply and risking a recession? The situation is so bad that no politician dares to suggest where to begin in correcting it. Once more, that is considered the path of political suicide.

### **The Dilemma**

This is the ominous dilemma that confronts us. Some of my readers must have recognized that the title of this article is taken from the title of a poem—"The Road Not

Taken"—by Robert Frost. The last stanza of that poem reads:

I shall be telling this with a sigh  
Somewhere ages and ages hence:  
Two roads diverged in a wood, and I—  
I took the one less traveled by,  
And that has made all the difference.

Perhaps most of us have had a similar experience, either figuratively or literally. You may have driven on a throughway, for example, toward a destination to which you had never driven before, and may have been told, or may have figured out from a map, that you should get off, say, at Exit 23. And then, suddenly and too late, you realize that you have driven past Exit 23. You can't turn back. You must look for the next exit, which may be miles ahead, and hope you will know what to do when you get there. You realize that you are going to be late, so you start almost unconsciously to speed up, but are aware that you are only going faster in the wrong direction.

We have reached such a dilemma in our political and economic life. We have taken the wrong road, and we have been on it so long that getting back on the right one seems almost hopeless. The longer we stay on the wrong political road, the more difficult it is to correct the error.

If—to take one example out of a hundred—rent control has been im-



posed for only a short time, so that the average of controlled rents is still about 90 percent of what free market rents would be, it is no great political problem to remove the controls. But if, as has sometimes happened, rent controls have been imposed so long in a severe inflation that the controlled rents averaged only 10 percent of free market rates, then any attempt to remove the controls might bring on riots. This has happened frequently in recent years in countries in which, for example, the government has been subsidizing food prices and can no longer afford it.

The wrong road has been the road of government economic intervention. The right road would have been to permit and encourage free markets. There are, it is true, a number of politicians today who praise the free market in speeches, but there are very few people, even among economists, who understand why the free market solves so many intractable problems and performs so many near miracles.

The market does this because it reflects and responds to everybody's demand and to everybody's supply, and it reflects to some extent everybody's expectations regarding the future. This means that it makes the maximum use of everybody's knowledge, and not merely the knowledge of a handful of officials. It reflects this knowledge by constant daily changes in prices of individual commodities and services. These price changes are daily directing production out of this commodity and into that, reducing surpluses and relieving shortages.

The market does not fulfill this function perfectly, because everyone's knowledge is limited and subject to error; and these errors do not necessarily cancel each other. But the market is constantly and quickly correcting these errors. It works incomparably better in maximizing and properly directing incentives than any other imaginable system. Only when this truth is sufficiently recognized by the public will the free market be restored. ☉

### Individual Effort

IDEAS ON



LIBERTY

THE natural effort of every individual to better his own condition is so powerful that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations.

ADAM SMITH



# I DON'T KNOW

THERE are basically two different ways to organize a society. We can take the viewpoint that we *know* how people should live their lives—and organize society and the economy accordingly. Or, we can say that we *don't* know—that we are uncertain enough about life's ultimate purpose that we will not impose our values on anyone else.

We have experienced a "knowledge explosion" over the past few decades and today we know more about the earth, its universe and its creatures than ever before. We can split atoms without seeing them. We can see the other side of the moon

without being there. We have a better understanding of both bizarre and normal types of behavior. But some knowledge is forever beyond our grasp. We can never be sure that any one of us knows, beyond doubt, exactly what the purpose of each person's life is and how that person can best fulfill that purpose. That is true at the "grand" level—to what I should dedicate my entire life—and at the "ordinary" level—what I should do today.

This attitude of "I don't know" is basic in the formation of a free economy and a free society. *I don't know* how to: live your life, manage your finances, or make your decisions. And because I don't know, I don't even try! The result is a free society in which everyone makes his own decisions about how he will spend

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his time, use his talents, and allocate his material wealth. It encompasses more than just economics. You can choose not only your vocation but also your spouse; your own brand of coffee and your own "brand" of religion; where you will work and even *if* you will work. The entire list of civil liberties stems from the same source as our economic liberties—the willingness to admit "I don't know."

I don't know if my religious denomination has "the truth," so you choose your own church. I don't know if my opinion on a subject is correct, so you speak your mind as well. I don't know if you should be an engineer, a poet, or a banker, so you choose for yourself. When people choose for themselves, we have a free market and a free society.

But there has to be an essential humility, a recognition of our own limited knowledge. Each of us must admit that "I don't know" before we can have a viable, free society. And there lies the difficulty.

### The Urge to Control

Almost everyone would *publicly* acknowledge that he is incapable of directing other people's lives. However, deep inside, a lot of us seem to believe that we *do* have the knowledge and wisdom to control others. In fact, recorded history is an ongoing account of people who thought they *did* know how to organize

their society. From the kings who ruled by divine right to the feudal lords who totally directed the economic and social activities of their peasants; from the crusaders who were out to win the hearts and minds of men (and to kill them if that failed) to the Hitlers, Stalins, and Idi Amin's of this century—all are classic cases of people who would not admit "I don't know." And the classic cases aren't all. The historic listing of truly free markets and societies is about as short as the list of government agencies that have voluntarily disbanded.

The institution that works against liberty is government. Government is the only agency that can rely on coercion instead of cooperation, and if coercion is used it is a pretty good sign that the people coerced did not act of their own choosing! When government goes beyond its peace-keeping functions, both internationally and domestically, it is in essence saying "I know!" It knows:

- how your home should be constructed (even if it doubles the cost by using outdated methods);
- what education you should receive (even if it means you will forever read and write at a third-grade level);
- how much you should pay for gasoline (even if none is available at that price);

- what wage you should earn (even if you can't find a job at that wage);
- what you should and should not read, eat and watch on TV, what countries you shouldn't visit, and what foreign products you should be allowed to purchase.

Government, once it exceeds its essential duties, will strive to organize our economic life and our total society because it thinks it has *the* answers, *the* knowledge, *the* truth.

But people are not inclined to accept government as the possessor of all knowledge. As a result, the people must be "persuaded." The traditional form of persuasion was the point of a sword or the muzzle of a rifle. Modern governments, though, are too advanced to use such outright force. They use the carrot instead of the stick. We no longer resist government restrictions, regulations, controls, prescriptions, and proscriptions for the simple reason that we have been bought off! We have discovered the secret that kings tried to hide for centuries: it is a lot easier to live off the public purse than it is to work.

### Wards of the Government

People throughout the economy now depend on government for some or all of their livelihood. Government funds provide welfare payments, program and project grants,

contracts for services and equipment, and even direct employment to a growing proportion of our population. In addition, many businesses rely on federal, state, or municipal agencies to effectively eliminate competition.

Consider what has happened.

**Item:** In 1955, government spending was about 30 per cent of our national income. Twenty years later, that proportion had risen to 44 per cent. The government now spends nearly as much of our income as we do!

**Item:** Although it is difficult to arrive at a precise estimate, today somewhere between 35 per cent and 40 per cent of the entire U.S. *population* (not just the work force) receive some or all of their income from government. That is actually less than it might be: someone calculated that our country passed the point of no return in 1972 because in that year more than half of the population became eligible for some type of government aid, program, or project.

**Item:** Professions of all kinds rely on government restrictions to reduce the number of competitors. The same is true of businesses. A leading business publication recently referred to an airline company which is suing the Civil Aeronautics Board for *insufficient* regulation. The airline is apparently unhappy because,

as it stated in its annual report, the CAB's policy is to grant *any fit, willing and able carrier* any route for which it applies!


In short, we have sold our freedom. We have been increasingly willing to acknowledge the government's "superior" knowledge in exchange for a few dollars. This has occurred despite the government's *demonstrated* ignorance and incompetence in delivering mail, operating schools, and even in handing out money. We have allowed government to claim "I know" as long as it also says "Here's your share."

### **Our Freedom in Jeopardy**

The government expansion has been largely concentrated in the economic sphere, and that is where the effects of false claims to knowledge have shown up the most strongly. But our political and civil liberties are not far from jeopardy. As the government increasingly claims to know how energy should be used, it will at some point have to decide whose printing presses will be allowed to run. Is it likely that newspapers which are critical of the national energy policy will get as much electricity to run their presses as will be granted to the papers which support the policy? Who will be allowed to travel—lecturers who criticize the government or the bureaucrats who carry out government policies? Will art books have

the same energy claim as the annual report of the Department of Energy? What churches will be allocated enough fuel oil to heat their sanctuaries?

The brief appearance of Miss Liberty came as a result of recognizing that no one person, no group, no agency possessed the knowledge to run the economy and society. Her visit brought forth all of the benefits of freedom: high living standards as creative and productive energies were unleashed; a wide variety of lifestyles as people pursued high (and low) purposes; a concern for the welfare of others, voluntarily supported through private charities; and technical and intellectual advances in knowledge which would have been inconceivable even to Jules Verne. All of this from our simply saying, "I don't know."

But now, at least for the present, the temptation of living off of the public purse seems too great to resist. We let the government claim to be all-knowing in exchange for the low-grade security of government providing and protection. However, knowledge—or lack of it—will ultimately surface. When government finally is overwhelmed by its own ignorance, when we finally say once again, "I don't know," then our free market economy and free society will allow the human spirit to reach new heights. 



# World in the Grip of an Idea

Clarence B. Carson

## 26. The Cold War: The Spread of Gradualism

GRADUALISM is a power theory, too, as communism is. That is, it is a theory for the gaining and exercising of power. It is a theory of gaining power by the use of the force of government to redistribute the wealth and establish substantive equality. It is a theory of holding and exercising power by continually promising more and more benefits and ever extending the sway of government.

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

Gradualism does not, of course, ordinarily adopt the guise of a power theory. Indeed, we are enjoined from recognizing it as a power theory by a prevailing intellectual temper which disdains theory. It operates under the guise of benevolence. In countries where socialism is an acceptable goal, it claims that goal and purports to be doing what is good for society. Where socialism is not generally recognized as a good, gradualism claims to be acting pragmatically for the common good.

Yet, gradualism is a power theory; socialism is a power theory; and pragmatism is a power theory. It is

only by grasping it as a power theory that we can understand its character, its mode of operation, and the manner of its success. This may become clear when we look at the matter this way. Socialism is a failure in every respect, save one. It fails in its tacit promise to lead us toward utopia. It fails to provide a bounty of goods. It fails to distribute wealth either justly or equally. It fails to fulfill its promises. In one respect only does it succeed. It succeeds in gaining, holding, and exercising power. It succeeds, by its very success, in transforming all political parties which contend with it into facsimiles of itself.

Ideas have consequences which follow from the essence of the idea. Theories produce results in accord with the theory, whether the theory is explicitly stated or not. The one tangible result of socialism is power, power concentrated and extensively employed. It may well be that most of those who embrace socialism are not aware that they are embracing a power theory. Certainly, most of those who vote for the measures of gradualist socialism are not informed that they are placing vast power in the hands of those over them. Yet that is what they do. Because power is the fruit of gradualism, its necessary antecedent is a power theory. The theory is here stated as the belief in the use of government to transform society.

### **Distributing the Benefits**

Gradualism differs from communism in practice in this way. Communism is spread and its grip fastened upon a people by the use of terror. Gradualism, by contrast, fastens its grip upon a people by providing unearned benefits to some or all of the people at the expense of some or all of the people.

Virtually the whole appeal of this notion is that those who receive the benefits are either not taxed to pay for them, or taxed much less than the sum of the benefits received. The graduated income tax and corporation taxes are essential to bolstering this belief. (If wealthy stockholders and corporations did not exist, gradualists would have to invent them. Indeed, in those countries where they do not exist, governments convey benefits derived from them by way of foreign loans and other sorts of aids.)

There is an even more clever device for hiding the taxation by which wealth is acquired to pay for the unearned benefits. It is inflation, i.e., the increasing of the money supply by government. Gradualist governments everywhere use this covert means of raising money. It is, of course, a form of taxation, for the value of the money thus raised is taken from the money which people hold or have owed to them. The effect is experienced as rising prices.

In gradualist countries, which is

to say, in effect, in all non-communist countries, a continual struggle goes on between groups to get the largest share of unearned benefits and to pay the smallest portion of the costs. It is a struggle in which the apparent winners are often the biggest losers, for the benefits carry a price tag. Those who receive them pay by loss of independence. Those who rule thus increase their power over the people. The power thus gained by government is used to shape the populace according to its will.

### A Single Government

Gradualist socialism is a power theory, too, in that its eventual aim is to have all force in the world monopolized by a single government. No such aim is generally avowed, of course, but it is nonetheless the tacit logic of the position. The idea that has the world in its grip requires the eventual concerting of *all* human effort to achieve felicity on earth. Moreover, the position sometimes gets explicit, albeit tentative, statement. Here is such a statement in the mysticized evolutionary language of Teilhard de Chardin. He leads into it by way of the discussion of the future necessity of applying eugenics to individuals. Then, he says:

Eugenics applied to individuals leads to eugenics applied to society. . . . Points involved are: the distribution of the re-

sources of the globe; the control of the trek towards unpopulated areas; the optimum use of the power set free by mechanisation; the physiology of nations and races; geo-economy, geo-politics, geo-demography; the organisation of research developing into a reasoned organisation of the earth. Whether we like it or not, all the signs and all our needs converge in the same direction. We need and are irresistibly being led to create, by means of and beyond all physics, all biology and all psychology, a *science of human energetics*.<sup>1</sup>

If we strip away the prophetic mysticism in which his thought is cast, Chardin is saying that what is needed is a science of concerting human energy, and one is emerging. Government is, of course, the approved instrument for accomplishing the concerting of human energy.

Arthur M. Schlesinger, Jr., put the case for world government more prosaically a few years back:

Yet world government, in a sense, cannot emerge too soon; for the people of the world cannot long afford to expend their energies in squabbling with each other. The human race may shortly be confronted by an entirely new range of problems—problems of naked subsistence whose solution will require the combined efforts of all people if the race is to survive. . . . The results of industrialization and introduction of public health standards in Asia, for example, may well be calamitous, unless they are accompanied by vigorous birth-control policies and by expanded programs of land care and conservation.<sup>2</sup>



The time was not yet right for it, however, he pointed out. "When Russia loosens the totalitarian grip, then the noble dream of world government will begin to make some contact with reality. . . . In the meantime, we had better do what we can to foster community where we can, through regional federations and through the United Nations. . . ."<sup>3</sup> Schlesinger was stating the gradualist position in contrast with that of the enthusiasts for immediate world government.

Effective world government can only emerge, then, on this view, when all the nations of the earth have come under the sway of democratic socialism. If this gradualist vision be thought of as a timetable—a term that is only apt if it be understood as a figure of speech—the stages of progression are roughly these. First, socialism must come to power within nations. When several nations which have common bonds are socialized, they can form regional unions. Eventually, these can be linked together in a world government. Before that can happen, however, all cultural, religious, racial, and social differences from people to people and nation to nation will have to be blurred or obliterated. In short, the very transformation and homogenization toward which socialism tends must have taken place.

But the process does not occur in

timetable fashion. It goes on simultaneously at many different levels. It proceeds at any time and place when collective decision making and action is substituted for individual decision and acting. Thus, the United Nations Organization, which is already in existence, might eventually become the world government. But whether it does or not, the yielding to it of any power of decision and action is a step in the direction of world government within the socialist eschatology. But so is the decision of some local government to fluoridate the water supply, for that, too, is a step toward total collectivization. My point is that the process may go on simultaneously at many different levels, that gradualists have no precise blueprint or plan, but that they understand themselves to be proceeding toward the goal wherever decisions are being collectively made that were formerly made by individuals.

### **The Spread of Democracy**

The spread of gradualism proceeds, then, by the spread of the collectivizing of decision making and action. Gradualism is a power theory, a theory for eventually consolidating all power in a single world government, but it does not necessarily proceed by the direct exercise of power. And it certainly does not rely on terror for its spread.

Its chosen instrument is democracy, although there is no necessary aversion to autocratic methods so long as there is a general framework of democracy. In the world today the spread of gradualism is a concomitant of the spread of democracy.

Anyone who undertakes to tell the story of the spread of gradualism around the world in the mid-twentieth century has set himself a formidable, if not impossible, task. The task does not simply arise because the world is a large and diverse complex of nations, though it is. The problem is more fundamental than that. It arises from the very nature of gradualist or evolutionary socialism. The very idea is that the movement toward socialism must be by gradual, and often imperceptible, steps. Usually, gradualists operate within the received framework of institutions.

Often enough, those who advance gradualist measures do not proclaim themselves as socialists. Journalists usually confuse the issues. Headlines do not announce that a gradualist regime has come to power in some land. (If they did, it would probably mean that some communist had seized the government.) The world of scholarship provides no greater aid. There are no textbooks on the spread of gradualism in the world. Such references as are usually made by writers to such matters are apt to describe a regime as

"moderate" or "left wing" or "right wing," terms which may provide a better indication of the predilections of the classifier than about the tendency of the government.

In truth, the spread of gradualism is largely unreported, though it is surely one of the most significant developments of the twentieth century. If gradualism were a fact, I think it would have been reported. But it is not a fact; it is a theory. It is a theory that if you begin at one point with certain sorts of measures and advance them relentlessly and successfully, you will eventually end up at your destination. Gradualism is also a tendency, a movement, a direction, and an ideology. As a tendency, when it is recognized, a great many facts may be accounted for by it. More, it is surreptitious movement, operating under cover of other names quite often, and moving toward its eventual goal slowly and by indirection.

### **Destination Unknown**

The problem of the historian in dealing with gradualism may be illustrated by analogy with describing a man on a journey whose destination is uncertain. Let us suppose that the man begins his journey at Dallas, Texas. Amongst friends and those with whom he is comfortable he has often talked of going to New York City to settle there. He has even discussed on several occasions

the ways and means of getting there. For purposes of the analogy, we will equate New York City with socialism. But when he sets out from Dallas, he buys a ticket to go only to Longview. From Longview, he travels to Texarkana, thence to Little Rock, then on to Memphis, then, unaccountably, to Muscogee, Oklahoma. From Muscogee, he proceeds to Birmingham, and then north once again to Chattanooga.

Let us interrupt his journey at Chattanooga, with the observation that he has only got that far to date. Is he going to New York? From the information available to us, we do not know. There is some evidence that he might be. There is a pattern to his travels, thus far, if the tacking to and fro is discounted, which could eventually get him to New York. He could, however, travel next to Atlanta instead, and wind up in Miami. The only substantial clue we have is that he had talked as if he were going to New York.

There are, however, some pieces of missing information. We have not been told in what sort of vehicle he is traveling, nor do we yet know how its intermediate destinations are determined. Let us say, somewhat playfully, that he is traveling by a sail-driven wind-propelled prairie schooner. Its intermediate directions are determined by two variables, each more or less independent of the other, and neither of which is

predictable in advance. One factor is that the passengers vote before they set out from a city, and the majority decide which city they will go to next. The other factor is what they may be driven off course, even to different destinations, by strong wind currents. There is another factor, however, which makes their eventual arrival in the vicinity of New York fairly certain, if they stay on the journey long enough. The prevailing winds in the United States blow in an easterly direction. Indeed, those from the southwest, Dallas, for example, blow in a northeasterly direction, i.e., toward New York.

With this information, the analogy becomes very nearly a paradigm. The traveler is the nations of the world. The vehicle is democracy. The course is gradualism. The prevailing winds are the intellectual climate, driving toward the eventual destination of socialism. The tacking to and fro is occasioned by the shifting currents of popular opinion.

### **Bent Toward Collectivism**

This provides us an analytical tool, of sorts, with which to discern the mode, methods, and extent of the spread of gradualism. The spread of democracy in the twentieth century is more or less coextensive with the spread of gradualism. On the face of it, there is no reason why this

should be true. Political democracy could be, perhaps should be, ideologically neutral. It may have been at one time, but it is not in the twentieth century. Democracy is now ideologically loaded and bent toward collectivism. What makes this so is the intellectual climate.

A major change in what is called democracy—more properly, representative government—occurred in the late nineteenth and early twentieth century. Democracy emerged in modern times as a means of controlling government, of limiting and restraining those who govern. Representative government was earliest and firmest established in England following the Glorious Revolution. Its most prominent task was to control and limit the exercise of power by the monarch. The control over the purse—over revenues—was reckoned to be the most crucial power for exercising that control. That was the reason for vesting the authority for initiating appropriations in the United States House of Representatives—the most democratic branch of the Congress—to keep the power over the purse nearest to the people.

The major change referred to above occurred when the emphasis shifted from the people controlling government to the government controlling the people. What occurred, let me reiterate, was a shift in *emphasis*, not some absolute change.

There never was a time, of course, when government did not exercise some control over the people. Moreover, as long as people vote in contested elections, they exercise some control over government. It is a matter of degree and emphasis.

### **Attempts to Limit Government**

Anyone who will study in depth English history in the seventeenth century will surely discover that much of the great effort going on was to discover means of controlling government. In like manner, the documents of the American Revolution are replete with evidence of concern for limiting and restraining government. Placing basic powers in the elective legislatures was one of the important devices by which the founders hoped to accomplish this.

In like manner, it should be clear that governments in more recent times have shifted toward more and more control over the people. That is not the way those who favor the controls describe them, of course. They talk of planning economies, of controlling business, of controlling prices and wages, of providing social security, of setting standards for this or that or the other, and so on. But they are always using power upon and controlling people, and not just some of the people either, but all of them. As has been shown in this work, the control over business is a

means for reaching through to and controlling all who work for or trade with it. Compulsory school attendance, compulsory retirement "contributions," building codes, "check off" payment of labor union dues, tax payments to subsidize undertakings, fair employment practices acts, and so on, are people control.

The "have-nots," the "have-littles," the "ne'er-do-wells," the uneducated, the old, the young, minorities, industrial workers, tenant farmers, working mothers—whatever disfurnished classification that can be conceived—are essential to gradualist socialism. Their condition provides the grist for the program mills of gradualism. The emphasis shifted from controlling government to controlling people in conjunction with the thrust toward universal suffrage. The tie between democracy and gradualism was knotted with this development. The enfranchisement of those who hope to gain by weight of numbers what they had not achieved by their efforts is the basic political, or power, technique of gradualism.

But the impetus toward socialism does not arise from those who can in one way or another be described as disfurnished. They could no more provide the continuous impetus for such a movement than they could effectively direct the development of great corporations. Nor does the impetus come from politicians primar-

ily, though politicians do much of the work of arousing the populace and the enactment of programs.

### The Intellectual Drive

The impetus toward socialism comes from what Russell Kirk refers to as the "clerisy," or what are more commonly called intellectuals. "Clerisy" may be the better term, however, for it suggests the pseudo-clerical character of the undertaking. The impetus toward socialism is provided by secular clergymen, so to speak, by those who have taken up the mission of transforming man and society by the use of force. The natural habitat of these secular clergymen is the modern college and university. But they are almost equally at home amongst the regular clergy, as journalists, as writers, and in any one of the hundreds of intellectual pursuits. Whatever their vocation, their avocation is transformation. They are the makers and purveyors of intellectual fashion, or, more pointedly, they make gradualist socialism fashionable under whatever guises it adopts at the moment. They create and spread the intellectual climate which propels us toward socialism.

Gradualist socialism advances under many guises, but there is one that is very nearly constant in the world today. It is democracy. "Democracy" is the code word for gradualist socialism. The situation

is somewhat confused, however, because communists also use it as a code word. Thus, it is not always immediately clear when we are informed by the great news media of the world that democracy has triumphed somewhere or other whether communism or gradualism has come to power. But it does usually eventually get straightened out. If one-party rule is tyrannically imposed, and if close relations with one or more of the great communist powers are established, a country will likely be recognized as communistic, not "democratic." (There is yet another element in the confusion—the Third World. That will have to be discussed in its own place, however.)

The spread of gradualism, then, can be very nearly equated with the spread of democracy. There are other ways of saying much the same thing. In those countries of the world in which the influence of the United States and Western Europe is predominant, gradualist socialism is generally well established. More bluntly, it is that portion of the world tied either directly or indirectly to the inflationary spiral of the dollar. However, this last formulation better describes the predicament of much of gradualism than it does the extent of the sway.

At any rate, the geopolitics of the West has been deeply intertwined with gradualism since World War II.

Much of the Western influence on the rest of the world had been wielded by way of colonies prior to World War II. Every major (world?) European war since the beginning of the eighteenth century had embroiled colonies and entailed reshuffling of colonial possessions. World War II marked a major break with the past. Theretofore, colonies had been sought mainly, though not exclusively, in order to gain dominant trading positions in other parts of the world. The diminution of military power in Western Europe in the course of the war, plus ideological pressure, resulted in the release of colonial possessions, many of them within a decade after the war. With the release of colonial possessions went also the loss of European hegemony in many parts of the world.

### **The Cold War**

The quest for favorable trading positions, and the conflicts that were engendered by it, was transformed into an ideological conflict. The general name for that conflict, of course, has been the Cold War. The expansive pressure of communism provoked resistance to it which was centered in the United States. Whatever the interest of those who opposed communism, this conflict became mainly a contest between revolutionary and evolutionary socialism, as I pointed out earlier.

The answer to communism, many claimed, was democracy. Hence, much of the influence of the West and a considerable amount of the wealth and know-how of the United States was put into establishing and bolstering democratic regimes which, according to theory, might be able to defend themselves from communism and maintain their own independence. The result was the spread of democratic socialism where it was successful. Where it failed, which was in most places, it set the stage for some nationalistic and autocratic socialist regime.

It is certainly simplistic and probably untrue to explain the failure of these regimes on the grounds that the people are unprepared for democracy. If by being "prepared" for democracy is meant the willingness and readiness of peoples to go to the polls and vote themselves a share of the wealth, most peoples of the world are probably well prepared. The problem lies elsewhere. They don't have the wealth to distribute!

Democratic, or evolutionary, or gradualist, socialism is a product of industrially and agriculturally advanced nations. It succeeds in holding power only in these nations, if it is not massively aided from other sources. There is no mystery about why this is so.

Democratic socialism is a parasite on the back of capitalism. It is a theory of gaining and exercising

power by controlling and distributing the wealth produced by tools, techniques, and sophisticated business organizations. It can succeed, so far as it succeeds, only in such countries as Sweden, the United States, England, Canada, Japan, and Germany—in those countries in which capital has already been employed so as to produce great wealth. It can only hold power elsewhere by massive transfusions of wealth from those nations in which capital was earlier sufficiently free and the incentives were there for producing wealth.

### **Dispensing False Cures**

After World War II, many of the peoples of the world came to the West asking for bread and we gave them stones instead. More specifically, they came to the colleges and universities of Europe and America seeking to learn the sources of our wealth and prosperity. We gave them instead the power theories of democracy laced with pallid socialism.

True, they sometimes learned how to operate our machines, but they learned little of how they are to be acquired and less about how they may be effectively used. From our histories they learned of the horrors of the industrial revolution, how businessmen were rapacious and greedy, and what great evils attended the growth of great corpora-

tions. In economics they learned macro-economics, which is, in effect, distributionist economics. They went back to their native lands well instructed about how to distribute wealth but largely ignorant of how to produce it. Or worse, they had been indoctrinated against the most effective means of achieving prosperity.

Even so, the spread of gradualism around the world has been impressive indeed. From tiny beginnings in the minds of a few men, mainly in England and Germany, it is now firmly established in every advanced industrial country in the world. It was once said that the sun never set on the British Empire. It is equally true today that the sun never sets on gradualism. Of course, gradualism has spread to every non-communist country in Europe, to the United States, to Japan, to Australia, to Canada, to New Zealand, to the Philippines, to South Korea, and so on. It has also spread to many countries in Latin America, Africa, and Oceania.

Indeed, there is hardly a petty dictator in the world who cannot point with pride to the accoutrements of gradualism he has introduced in his country: medical clinics, free schools, subsidized housing, land reclamation and redistribution programs, minimum wages, empowered trade unions, and so forth. Few countries in the

world are so backward that they cannot boast a parliament, the emblem of democracy, which has not busied itself in the not too distant past in confiscating foreign assets in order to redistribute them according to such lights as it has. In short, the outward forms of democracy and the inward thrust of gradualism have been introduced in states around the world.

Westernization evinces itself in our time as the spread of gradualism around the world. The technology which resulted from invention, saving, investment, efficient management of great enterprises which were concentrations of capital has been used to give universal sway to intellectual fashion. More specifically, intellectuals can now utilize high-speed planes, fast automobiles, telephones, television, and radio to see to it that intellectual fashion prevails.

### **Collectivized Decisions**

Intellectual fashion prescribes the collectivization of decision making and action. It prescribes a collectivized democracy within each land, one whose government shows its good faith by passing socialist measures. It requires that governments negotiate and come to terms with all radical and socialistically inclined groups within their borders. Intellectual fashion proclaims the desirability of free speech and a free



press in all lands, but does not require it in order to extend respectability to communist regimes.

Intellectual fashion not only prescribes the collectivizing of decisions within countries but also in international relations. Intellectual fashion is gradualist, and gradualists no more want independent nations than they want independent individuals. They want nations to negotiate with one another, to form regional associations with one another, and to act collectively in all matters.

A nation today, particularly a non-communist nation, which makes a unilateral decision, i.e., acts on its own in its own interest, may expect to be denounced and to be subject to every sort of pressure that the makers of intellectual fashion can mount.

The United States intervention in Vietnam is a case in point. Communists and gradualists united in condemning this action, communists for obvious reasons and gradualists mainly because the action was unilateral. (In Korea, gradualists had been hoist by their own collectivist petard, for the United States intervention there was approved by a United Nations Resolution.)

Rhodesia has suffered the calumny of the intellectual community for several years for the determination of its government to go it alone.

### **A Possible Exception**

Israel confounded intellectual fashion by making successful war against the Arabs on its own, confounded, I say, for the Western intellectual community, at least much of it, had long had its sympathies bound up with the fate of Israel and for a while the juices of collectivism had to be held in abeyance. But they were only in abeyance—after all, gradualists are gradualists, not insist that everything be done at once—for it now appears that Israel has finally been brought to the negotiation table, and eventually the collectivist mode may regain its sway in that corner of the world.

Gradualists have a goal. It is to socialize the whole world and bring it under one all-embracing government. They have a faith, too. It is that they are moving toward that goal, however slowly and gradually, whenever any decision is made collectively. Indeed, it sometimes appears that the manner of the making of the decision is more important than the decision reached, and that may well be the case for any particular decision. John Dewey put the premises of the faith this way. You cannot separate means from ends, for the means that you employ will eventually determine the ends you will achieve.

Gradualists believe, then, that so long as more and more decisions are being collectively made they are

moving toward their goal. That accounts for their commitment to democracy, for by their understanding it is a means of collectivizing decision making. That accounts for the pressures they continually mount to have decisions by nations negotiated, mediated, and made collectively.

In large, then, gradualism was spread within an intellectual atmosphere arising from Western intelligentsia and propagated as intellectual fashion. This fashion is expressed as a pressure to collectivization. It is advanced as democracy. Within the Cold War framework it was supposed to be democracy versus communism. The welfare, government planning, and distributionist schemes were advanced both as an antidote to communism and as substantive requirements of democracy. The programs of gradualism, however, were devised

in the advanced industrial and agricultural countries of the West where the technology for producing wealth already existed. Industrially backward countries frequently had little wealth to distribute, and gradualist measures could have little attraction. Therefore, the spread of gradualism had to be subsidized. For that part of the story, it will be necessary to examine the foreign aid programs. ⊕

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Next: 27. *The Cold War: Foreign Aid.*

### —FOOTNOTES—

<sup>1</sup>Franklin L. Baumer, ed., *Main Currents of Western Thought* (New York: Alfred A. Knopf, 1967), p. 736.

<sup>2</sup>Arthur M. Schlesinger, Jr., *The Vital Center* (Boston: Houghton Mifflin, 1962), p. 240.

<sup>3</sup>*Ibid.*, pp. 239-40.

## Ideas Determine Actions

THE intellectual leaders of the peoples have produced and propagated the fallacies which are on the point of destroying liberty and Western civilization. The intellectuals alone are responsible for the mass slaughters which are the characteristic mark of our century. They alone can reverse the trend and pave the way for a resurrection of freedom.

Not mythical "material productive forces," but reason and ideas determine the course of human affairs. What is needed to stop the trend toward socialism and despotism is common-sense and moral courage.

IDEAS ON



LIBERTY

# Liberty and the Power of Ideas

A BELIEF which I stress again and again in my classes here at Northwood Institute is the belief that *we are at war*—not a physical, shooting war but nonetheless a war which is fully capable of becoming just as destructive and just as costly.

The battle for the preservation and advancement of liberty is a battle not against personalities but against opposing ideas. The French author Victor Hugo declared that "More powerful than armies is an idea whose time has come." Armies conquer bodies, but ideas capture minds. The English philosopher Carlyle put it this way many decades ago: "But the thing a man does practically believe (and this is often enough *without* asserting it to himself, much less to others): the thing a man does practically lay to heart,

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and know for certain, concerning his vital relations to this mysterious Universe, and his duty and destiny there, that is in all cases the primary thing for him, and creatively determines all the rest."

In the past, ideas have had earthshaking consequences. They have determined the course of history.

The system of feudalism existed for a thousand years in large part because scholars, teachers, intellectuals, educators, clergymen and politicians propagated feudalistic ideas. The notion of "once a serf, always a serf" kept millions of people from ever questioning their station in life.

Under mercantilism, the widely-accepted concept that the world's wealth was fixed prompted men to take what they wanted from others in a long series of bloody wars.

The publication of Adam Smith's *The Wealth of Nations* in 1776 is a

landmark in the history of the power of ideas. As Smith's message of free trade spread, political barriers to peaceful cooperation collapsed and virtually the whole world decided to try freedom for a change.

In arguing against freedom of the press in 1924, Lenin made the famous statement that "ideas are much more fatal than guns." To this day, ideas by themselves can get you a prison sentence in communist lands.

Marx and the Marxists would have us believe that socialism is inevitable, that it will embrace the world as surely as the sun will rise in the east tomorrow. As long as men have free will (the power to choose right from wrong) however, nothing that involves this human volition can ever be inevitable! Men do things because they are of the mind to do them; they are not robots programmed to carry out some preordained dictum. If socialism comes it will come because men choose to embrace its principles!

Winston Churchill once said that "Socialism is the philosophy of failure, the creed of ignorance, and the gospel of envy. Its inherent trait is the equal sharing of misery." Socialism is an age-old failure, yet the socialist idea constitutes the chief threat to liberty today. So it is that believers in liberty, to be effective, must first identify and isolate the socialist notions which have

taken their toll on liberty. In doing that, and then refraining from advancing those ideas, we can at the same time advance liberty. As I see it, socialism can be broken down into five ideas.

1. *The Pass a Law Syndrome.* Passing laws has become a national pastime. When a problem in society is cited, the most frequent response seems to be, "Pass a law!" Business in trouble? Pass a law to give it public subsidies or restrict its freedom of action. Poverty? Pass a law to abolish it. Perhaps America needs a law against passing more laws.

In 1977 Congress enacted 223 new laws. It repealed hardly any. During that same year, the federal bureaucracy wrote 7,568 new regulations, all having the force of law.

James Madison in 1795 identified this syndrome as "the old trick of turning every difficulty into a reason for accumulating more force in government." His observation leads one to ask, "Just what happens when a new law goes on the books?" Almost invariably, a new law means: a) more taxes to finance its administration; b) additional government officials to regulate some heretofore unregulated aspect of life; and c) new penalties for violating the law. In brief, more laws mean more regimentation, more coercion! Let there be no doubt

about what the word coercion means: force, plunder, compulsion, restraint. Synonyms for the verb form of the word are even more instructive: impel, exact, subject, conscript, extort, wring, pry, twist, dragoon, bludgeon, and squeeze!

When government begins to intervene in the free economy, bureaucrats and politicians spend most of their time undoing their own handiwork. To repair the damage of Provision A, they pass Provision B. Then they find that to repair Provision B, they need Provision C and to undo C, they need D, and so on until the alphabet and our freedoms are exhausted.

The Pass a Law Syndrome is evidence of a misplaced faith in the political process, a reliance on force which is anathema to a free society.

2. *The Get Something From Government Fantasy.* Government by definition has nothing to distribute except what it first takes from people. Taxes are not donations!

In the Welfare State, this basic fact gets lost in the rush for special favors and giveaways. People speak of "government money" as if it were truly "free."

One who is thinking of accepting something from government which he could not acquire voluntarily should ask, "From whose pocket is it coming? Am I being robbed to pay for this benefit or is government

robbing someone else *on my behalf*?" Frequently, the answer will be *both*.

The end result of this "fantasy" is that everyone in society has his hands in someone else's pockets.

3. *The Pass the Buck Psychosis.* Recently a welfare recipient wrote her welfare office and demanded, "This is my sixth child. What are you going to do about it?"

An individual is victim to the Pass the Buck Psychosis when he abandons himself as the solver of *his* problems. He might say, "My problems are really not mine at all. They are society's, and if society doesn't solve them and solve them quickly, there's going to be trouble!"

Socialism thrives on the shirking of responsibility. When men lose their spirit of independence and initiative, their confidence in themselves, they become clay in the hands of tyrants and despots.

4. *The Know-It-All Affliction.* Leonard Read, in *The Free Market and Its Enemy*, identifies "know-it-allness" as a central feature of the socialist idea. The know-it-all is a meddler in the affairs of others. His attitude can be expressed in this way: "I know what's best for you, but I'm not content to merely *convince* you of my rightness; I'd rather *force* you to adopt my ways." The know-it-all evinces arro-

gance and a lack of tolerance for the great diversity among people.

In government, the know-it-all refrain sounds like this: "If I didn't think of it, then it can't be done, and since it can't be done, we must prevent anyone from trying." A group of West Coast businessmen ran into this snag recently when their request to operate barge service between the Pacific Northwest and Southern California was denied by the Interstate Commerce Commission because the agency felt the group could not operate such a service profitably!

The miracle of the market is that when men are free to try, they can and do accomplish great things. Leonard Read's well-known admonition that there should be "no man-concocted restraints against the release of creative energy" is a powerful rejection of the Know-It-All Affliction.

5. *The Envy Obsession.* Coveting the wealth and income of others has given rise to a sizable chunk of today's socialist legislation. Envy is the fuel that runs the engine of redistribution. Surely, the many soak-the-rich schemes are rooted in envy and covetousness.

What happens when people are obsessed with envy? They blame those who are better off than themselves for their troubles. Society is fractured into classes and faction

preys upon faction. Civilizations have been known to crumble under the weight of envy and the disrespect for property which it entails.

A common thread runs through these five socialist ideas. They all appeal to the darker side of man: the primitive, noncreative, slothful, dependent, demoralizing, unproductive, and destructive side of human nature. No society can long endure if its people practice such suicidal notions!

Consider the freedom philosophy. What a contrast! It is an uplifting, regenerative, motivating, creative, exciting philosophy! It appeals to and relies upon the higher qualities of human nature such as self-reliance, personal responsibility, individual initiative, respect for property, and voluntary cooperation.

Nobel Prize winner F. A. Hayek has called attention to the power of ideas in preserving liberty: "Unless we can make the philosophic foundations of a free society once more a living intellectual issue, and its implementation a task which challenges the ingenuity and imagination of our liveliest minds, the prospects of freedom are indeed dark."

The outcome of the struggle between freedom and serfdom depends entirely upon what percolates in the hearts and minds of men. At the present time, the jury is still deliberating. ☉

# The Dangers of Collectivism

IN A FREE SOCIETY, scarce and valuable resources are drawn to serve the mandate of consumers. Producers are guided by market prices as consumers cast their economic ballots for the goods and services which they prefer. Entrepreneurs are guided by the profit and loss system, and their ability to please consumers is reflected in the amount of profits earned.

The role of government in a free society is a limited one, as most areas of economic activity are left to the market. Of no concern to the government of a free society are the complex economic activities that take place between consenting parties—voluntary actions involving no use of force, violence or coercion. Individuals are free to act peacefully as they choose. Therefore, government's proper role is to assure a sound framework in which a free market economy may operate. The defense against internal and external enemies is a necessary func-

tion of government, and private property in such a society would be protected as the bedrock of the market economy.

In such an environment individuals might freely cooperate in all sorts of peaceful organizations and activities—a truly pluralistic society. No one particular group could claim control of the state, and each group would be free to produce, create and enjoy the benefits of its labor. But when freedom gives way to state-enforced collectivism, pluralistic activities are discouraged. The ideology of collectivism looks upon the individual as a mere organ of the state. As in the human body, where the brain directs every function, the ideologues of collectivism view society as an assembly of individuals directed by the state. If all power is centered around the state, which holds the monopoly of force, the benefits obtained from the division of labor in a pluralistic society disappear.

In the economic realm of the collective society, producers are faced with countless regulations and

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minimum requirements that the state deems essential. These regulations carry with them the costs of compliance which tend to raise prices. And higher prices tend to adversely affect not only consumer demand for some products but also the availability of capital for use in further production.

Income tax laws which penalize producers and inhibit capital formation are enacted, locking people into the holdings they presently possess. A rigidity is thereby imposed on the economy, because such laws discourage the sale of assets to obtain profits which would be taxable.

As the trend toward collectivism advances, revenues collected by the state in the form of taxes are used not only to finance the police and court functions, but also for distribution to special groups of beneficiaries. Thus, in the name of equality, does government policy shift from the protection to the redistribution of property. And the greater the number of beneficiaries, the greater their political power. And as any one group succeeds in this act of political plunder, this in turn leads other groups to lobby for their own special privileges.

In a free society, numerous organizations would be voluntarily striving and competing for the attainment of various goals. But in today's mixed society, such groups are not content to rely on persua-

sion, but rather depend on the use of coercion, through government funds, for the achievement of these objectives. As these groups grow in number, it soon becomes evident that the government cannot please every group; some will be left unsatisfied. Politicians discover that taxation has its limits, that high and rising taxes are unpopular. So they resort to the hidden tax of converting budgetary deficits into inflation of the money supply.

The special interest groups compete with each other for the scarce funds that government is able to provide. In that sense, a society of conflict emerges, as each special interest group views the other as an adversary in this looting procedure. Politicians use budgetary deficits in their attempt to stem the conflict and to grant most of the benefits demanded by the lobbies.

Budget deficits are financed by two methods. One method is for the state to obtain loans and remove funds from the capital market, raising interest rates and reducing the business opportunities that otherwise would have existed. The second way to finance budgetary deficits is to issue more and more paper money. The seeds of inflation are sown, to bear fruit after the voters have cast their ballots. Nor does any one group see inflation as an immediate threat to its special interest; society as a whole will bear the



consequences. As inflation and recession are brought about, the special interest groups are confident that they will be able to obtain their "little bit more" from the government.

Pressure groups support the politician who is willing to enact into law the specific programs that they champion. Welfare recipients, farmers paid not to grow crops, industries protected from foreign competition and other such groups all rely upon the regimentation of economic activity and the general shrinkage of freedom as effective means to their goals. These coalitions are also aided by the government bureaucracies which have been structured to implement these programs. The legions of government employees who administer the countless forms of intervention in the economy have a vested interest in justifying the law they enforce. Hence, both beneficiaries and the administrative agencies share a common belief that this looting process is essentially fair.

As collectivism continues its cancerous growth, the institutions which have traditionally served the free society begin to change. For example, in the market economy people buy and sell according to their subjective values. The buyer prizes what he is about to buy more than the money he will relinquish

for that purpose. Conversely, the seller places a higher value on the money he is about to receive than on the merchandise he is about to give up. Thus, from the point of view of each participant, the sale is beneficial to him. However, in the collectivistic society, government services bring forth a change in the nature of contractual relationships.

Government agencies created to enforce interventionist schemes carry with them the power of compulsion and coercion that is implicit in the state. Both the beneficiaries and the victims of these schemes are affected by the power of these agencies. Many private entities are compelled to act contrary to their desires in order to serve the "public interest" as the governmental agencies define it. By entering into agreements with each other, the parties cannot properly be said to be entering into a mutually beneficial contract in the traditional sense. Rather, a hybrid contract is created—one entered into under the fear of possible governmental reprisals if the action is not taken. The beneficiary of the law in question views the matter differently. After all, the governmental entity has safeguarded his "right," while the other party has had to reluctantly enter into the agreement or face prosecution by the state.

Import duties illustrate these hybrid contracts. When tariffs are

levied on foreign goods, thereby protecting the domestic producer from the consequences of competition, the consumers' choice is altered. Either they must pay a higher price for the foreign product than they would normally have to pay, or they buy the domestically produced object. The general notion that contracts are mutually beneficial to the contracting parties loses validity in this instance as consumers are not able to express their desires freely. The demand for foreign products will decrease as the import duties hike prices. This, in turn, benefits domestic producers. By distorting production and the choice available to the consumers, the government redistributes income to the detriment of the consumers.

Special interest groups have a practical advantage in the political realm, which should alert us to the dangers of collectivism. Voters face politicians from a vastly different perspective than they face producers. In the economic field, consumers are economic voters. Each dollar spent represents an economic vote which indicates to the producer how to utilize scarce resources. The producer who best satisfies the consumers' desires obtains more money votes—more income. Consumers do not pay attention to the identity of the producer. They are totally insensitive as to whether or not the

producer is a good or bad person, or as to his race, color or nationality. The consumers' only concern is that the products which they buy satisfy their needs, and they will patronize such producers accordingly. In addition, consumers cast their economic ballots in a product-by-product fashion. Even if 51 per cent of the market favors one type of product, the market still will provide what is sought by the remaining 49 per cent.

In contrast to the economic vote of the consumer stands the political vote of the citizen. Political campaigns are cluttered with numerous issues and personalities. The voters cannot vote separately on each possible issue, but rather they vote for people who represent compromises and stand for many goals. Hence, as the state enlarges its area of activity to encompass different segments of the economy, it becomes harder for a voter to sustain or to defeat any one particular program.

A by-product of government intervention and collectivist control is a growing public interest in discerning the causes of the malfunctioning economy. As people begin to feel the oppressive nature of intervention and the suffocating consequences of taxation and inflation, a countervailing force will be building in freedom's favor. Our prospects for survival depend upon our understanding of the economic and moral case for freedom. ⊕



## LIBERTY: Legacy of Truth

I haven't checked through all of Leonard Read's books, but those that remain in my library after borrowings and the attritions of moving reveal a significant secret: Leonard never mentions contemporary politicians in their roles as such. If he occasionally bows to a statesman of the past, such as Churchill or John Foster Dulles, you may be sure that it is to make a broad philosophical point.

The casual reader might presuppose that Leonard Read's silence about Jimmy Carter or Jerry Ford or Ronald Reagan in his most recent books proceeds from an indisposition to mix it up in the prize ring. But Leonard, actually, does not mind a fight. His theory of waging political war is to go for the jugular, which happens, as he says in his new book, *Liberty: Legacy of Truth* (Foundation for Economic Education, \$6.00), to be "whatever the preponderant thinking" is at "any given time." It is the theory that makes the politico, not vice versa.

Looking at the kinds of government that prevail in the world today, Leonard Read concludes "that the preponderant thinking is anti-freedom—authoritarian." So he goes for the jugular by tackling socialism on the philosophic plane. He opposes bad thinking with good thinking.

If Leonard Read has ever despaired of winning his fight he has never, in the course of writing more than a score of books, ever shown it. A less resilient character would have given up long ago. But now his attack on the philosophical jugular seems to be working. A lot of the same old politicians whom Leonard disdains to mention were returned to office in the last election. But there are new faces showing up on Capitol Hill, and some of them actually believe in liberty.

The important thing, in any case, is not that there is to be a mix of old and new political personalities. What really counts is that a significant number of the traditional high-tax, big-spend crew that has

been knocking the stuffings out of the American dollar since the Nineteen Thirties are now lining up for trips to the confessional. They are catching the signal from a shift in the "preponderant thinking" of the moment. If all goes well, the next time Leonard Read writes an essay bearing on the reflection of ideas on the political horizon it will take on a tone that is somewhat different. Instead of saying "Those sanctified ideas and ideals of our Founding Fathers must be born again," Leonard will be substituting the words "are being" for "must be."

### **The Pleasures of Aging**

Leonard Read copyrighted his new book on his 80th birthday in September of 1978, and he concludes it with an essay called "The Pleasures of Aging." But, on Leonard's own showing, there are no distinct pleasures involved in watching the clock move on. Longevity's purpose, he says, is "learning, not lengthening." And he quotes an anonymous authority as specifying that "one does not grow old—one becomes old by not growing." All of this puts the stress in continuing with the more pleasurable and profitable things that one has always done. In brief, a non-retirement program. So Leonard Read exults in "no let-up in travel, seminars, and the many chores at FEE." By working—and by treating older hobbies as "mere

pastimes"—the non-retired Read frees himself "from all fret about the discouraging prospects that the senior years have a tendency to impose."

At the recent Mont Pelerin Society meeting in Hong Kong, Friedrich Hayek, who is in Leonard Read's age bracket, was complimented on seeming more youthful and energetic than he seemed ten years back. Hayek's answer was that he had "tried old age and didn't like it." Leonard Read has yet to "try it." He quotes the likes of Cervantes, but his own model is Don Marquis' immortal cat Mehitabel, who always rose to the challenge by saying "there's a dance in the old dame yet."

In addition to the bigger "dance" of fighting the basic philosophy of socialism, this latest Read book addresses itself to the problems raised by coercive State control of education, to the need to oppose the "strike syndrome" by exposing "the folly of violence," to letting untrammelled human beings find energy sources wherever they exist, and to instigate what seems to me an odd crusade against legalized holidays.

This last must seem a real poser to libertarians. Surely only a workaholic would be willing to give up Christmas, Thanksgiving, the Fourth of July and sundry other holidays. Natural Law would seem-

ingly prescribe the need for periodic breaks, expressed in terms of ritual. If most of us didn't have them we would go off our rockers.

I would settle with Leonard Read for customary holidays as opposed to legal holidays. After all, Christmas, Thanksgiving and the Fourth of July had customary sanction before they had legal sanction. But the case against the legal holiday is not that it is a "hollow day" in contrast to a "hallow day." It is a "hollow day" if you go and get yourself involved in a car accident or a horrible New Year's hangover. But what would we tennis players or bike riders or joggers or skaters do if it were not for the week-end? Would Leonard Read say it is "hollow" to go to church on a Sunday morning? If you are going to crusade against the legal holiday, first make sure that custom, in default of law, has a fair chance of taking over.

### **Compulsory Education**

There would be less need of legalized holidays if Leonard Read could first win his battle against the idea of State-controlled compulsory education. If kids are going to be compelled to sit in classrooms for extended periods between their fifth and seventeenth years, they need legalized time off. One State compulsion breeds the necessity for another, if only as countervailing action. The Read essay on "Elemen-

tary Education" is a bit of an historical eye-opener to me. I had always supposed that the idea of compulsory State-operated schools came from Prussia via Horace Mann. But Leonard Read traces it to Napoleon, who thought that "public instruction should be the first object of government." "No one," so Napoleon decreed, "may open a school or teach publicly unless he is a member of the imperial university."

It so happened that Thomas Jefferson invited Pierre Samuel du Pont de Nemours, the physiocrat, to recommend an appropriate form of education for the United States. Du Pont wrote a 161-page book advocating the Napoleonic school system. So Jefferson, despite his generally voluntaristic philosophy, was beguiled into accepting the idea of compulsory public education.

It took more than a hundred years to see what a "scraggy bush" (Read's description) would grow from the roots planted inadvertently by du Pont and Jefferson. During all those years nobody contested the right of people to found private schools and colleges that could compete in performance and ideas with the State-supported public school. But now we can really see the "scraggy bush" for what it is, with the Department of Health, Education and Welfare trying to impose its so-called Affirmative Action programing on private schools whose only connection with

government is to accept students who may happen to be the beneficiaries of GI grants and State-guaranteed loans.

Leonard Read opens his book with some heartening essays on faith, hope and charity. We will need all of these to carry through with some of the specific crusades to which he invites us in his later pages.

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*Reviewed by Brian Summers*

THE great Austrian economist Ludwig von Mises (1881-1973) has invaluable insights for the serious student. But some of his works are much more difficult to grasp than others. Where does one begin?

*Liberalism* is an excellent introduction to Mises' thought. This 1927

book was entitled *Liberalismus* in the German original, and was published in the U.S. in 1962 as *The Free and Prosperous Commonwealth*. It is a lucid exposition of the principles of classical liberalism—the free enterprise policies which unleashed the productive forces of the nineteenth century and created the capital we are now consuming.

Mises bases his case for the free market on the enormous productivity of the division of labor. When workers, investors, and entrepreneurs are free to specialize in those areas of production for which they are best suited—and are free to exchange their products in an unfettered market—standards of living are infinitely greater than when each family tries to produce its own food, clothing, shelter, fuel, medicine, and all the other essentials of life.

From this fundamental observation, Mises develops the entire liberal program. He champions a completely free market because, as he demonstrates, all government interventions reduce the standard of living by disrupting the division of labor. Similarly, he opposes union monopoly privileges, which restrict labor mobility, raise unemployment, and plunder nonunion workers—the principal victims of union violence and threats of violence.

The popular alternative to interventionism—socialism—is shown

by Mises to be intrinsically unworkable. Not only does socialism stifle personal initiative, it destroys the means of economic calculation by placing all factors of production in the hands of the state. With no competitive bidding for labor, capital, and natural resources, the bureaucrats in charge of the state monopolies cannot compare the costs of different methods of production. Socialism is inherently wasteful.

Mises' foreign policy proposals are in keeping with his domestic program. He favors nonintervention, free immigration, and democratic elections as the only means to further the international division of labor and thus raise the standard of living of all peoples. Tariffs, imperialism, and colonialism are opposed as violent disruptions of peaceful exchange.

In these times of political turmoil, terrorism, and war, one insight of Mises is especially pertinent: without government regulations, trade barriers, special privileges, public services, oppressive taxation, and other restrictions on the free movement of men and goods, it would matter little which government one lived under or what party happened to be in office. Roll back the state, and politically inspired conflicts will tend to disappear. It is a point worth pondering.

*The Ultimate Foundation of*

*Economic Science*, first published in 1962, is difficult reading for those unfamiliar with Mises. *The Ultimate Foundation of Economic Science* is a critique of positivism, which has dominated economics for several decades. The positivist paradigm may be summarized as follows, using the example of minimum wage laws:

1. The positivist observes data. (Increases in the legally mandated minimum wage have been followed by increases in unemployment.)

2. He constructs a theorem to explain the data. (An increase in the minimum wage, other things being equal, will increase unemployment.)

3. He "tests" the theorem by further empirical observations. (He observes further instances of increases in the minimum wage and studies unemployment data before and after each increase.) If he believes that the data conform with the theorem (if he observes what he believes to be a convincing number of cases in which increases in the minimum wage are followed by increases in unemployment) he accepts the theorem. If he believes that the data do not conform with the theorem (if he observes what he believes to be significant cases in which increases in the minimum wage are not followed by increases in unemployment) he rejects the theorem.

This paradigm is vitiated by the

fact that the data used in steps 1 and 3 cannot derive from controlled experiments. In our example, the legally mandated minimum wage is only one of the many factors that influence unemployment statistics. It is impossible to obtain data in which all the factors except the minimum wage remain constant.

In contrast with positivism, Mises' methodology does not need controlled experiments because he treats economics as a praxeological science—a science of human action. Mises' paradigm may be summarized as follows:

1. The praxeologist postulates that all conscious human action is directed toward goals because it is impossible to conceive of a person consciously acting (trying to do something) without having a goal (the goal being the "something" the person is trying to do).
2. From the actions of men, the praxeologist deduces their goals. (An employer strives to earn profits. Earning profits is thus one of his goals. Hence, the employer's utility increases with his profits, and his

disutility increases with his losses. Of course, this does not preclude the existence of other goals, such a goal as keeping an employee's friendship.)

3. Assuming a given set of actors' goals, the praxeologist constructs a theory based on the human actions that necessarily follow from the set of goals. (As an increasing minimum wage forces an increase in an employee's wage rate, other things being equal, the disutility incurred in paying the wage increases. When the disutility involved in employing a person exceeds the utility involved in continuing his employment, the employee will be released. Thus, the praxeologist constructs the theorem: An increase in the minimum wage, other things being equal, will increase unemployment.)

In these difficult days, with mainstream economics in disarray, and freedom under constant attack, we welcome the reappearance of these two books by Ludwig von Mises, and hope that this time their lessons will be heeded. ☉