the
# Freeman

VOL. 30, NO. 3 • MARCH 1980



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

the
# Freeman
A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION
Irvington-on-Hudson, N.Y. 10533 Tel: (914) 591-7230
Leonard E. Read, *President*



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

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


Additional copies, postpaid: 3 for $1.00; 10 or more, 25 cents each.

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

Robert G. Anderson

# 2 KINDS OF SABOTAGE

THE newspaper headline read, *Dam Destroyed,—Damages In Millions.* The copy relates the horrifying details: "A group of terrorists announced responsibility for the destruction of the hydro-electric dam . . . A bomb exploding deep in the dam fractured the superstructure . . . The collapsing dam released a huge wall of water into the valley below . . . Within hours the lake was drained completely . . . Power generation was cut off instantly."

The stunned reader can clearly recognize the devastation inflicted on life and property from such an evil event. Bombs in the hand of saboteurs can wreak havoc. The damage, both seen and unseen, is apparent to all.

The physical destruction of the dam, the leveling of properties from the onslaught of water below the dam, the loss of both electrical power and the lake itself are immediately discernible. Also recognized are the losses of future recreational activities from the lake, irrigation water for agriculture, and a low-cost source of electrical energy. The impact of the saboteur's bomb in terms of capital destruction and a lower material well being for many people angers all who read or hear of such a violent act.

A public debate on the merits of blowing up the dam would be a discussion reserved for madmen. The harm from such sabotage is directly related to the exploding bomb. A universal condemnation of terrorism inevitably results because the devastation is so clearly recognized.

There is, however, another kind of sabotage. Unlike the exploding

**Mr. Anderson is Executive Secretary of The Foundation for Economic Education.**

bomb at the dam, the damage from this sabotage is not as readily perceived. This second kind of sabotage is the "time bomb" of government interference in the marketplace. And unlike madmen debating the merits of blowing up dams, practically everyone participates in this forum of economic sabotage by political manipulation.

The problem arises not from an abandonment of common sense in such debates, but instead from a failure to grasp the destructive consequences that this government "time bomb" can impose on life and property. If the economic consequences of government intervention could be as clear and direct as the damage from an exploding bomb, no problem would exist. The great tragedy, however, is that the effects of this latter bomb are rarely that clear.

### Windfall Profits Tax a Time Bomb

An excellent demonstration of this government "time bomb" sabotaging the productivity of the market has been witnessed in the public debates over the "windfall profits tax." Political rhetoric seriously argued that the "solution" to the energy crisis was yet another tax. It was argued that such a tax would "solve" the problem of economic waste, while at the same time lead us to greater social justice.

But what is argued and what is true are rarely the same in politics today. The "windfall profits tax" is a classic example of sabotage with a government "time bomb." And whether this sabotage is an act of evil or ignorance is irrelevant, for it in no way alters the outcome. The result of sabotage, intentional or misguided, is always the same—devastation of life and property.

The "windfall profits tax" is a wedge driven between consumers and suppliers of a scarce and valuable resource. It deprives the suppliers of a part of the price consumers will pay for additional oil or other forms of energy. So it is a cost of production that will have to be covered by higher prices if the additional production is to be undertaken. Gasoline prices and cigarette prices have consistently demonstrated this principle in the past whenever new taxes were imposed upon them.

It is, of course, this very result of increasing product price that has led to the advocating of a "windfall profits tax" as a means of curtailing energy consumption. At least there seems to be an understanding that less of a good will be consumed at higher prices than at lower prices. But it's the other things that are not seen, and their harm to life and property, that is the force of sabotage to the marketplace.

It must never be forgotten that

the advancement of human welfare is accomplished by increasing the abundance of goods and services in society. A curtailment of consumption by taxation can only discourage production and therefore lead to a worsening of economic conditions. Such taxation, therefore, is a direct undermining of our economic well-being as it increases energy costs and makes energy ever more scarce.

### The Function of Price

A distinction between rising prices generated by increased taxes and rising prices resulting from market forces must be made. Rising prices generated by the market forces of supply and demand perform a valuable economic function. The higher market price makes consumption more costly and thereby consumers will demand less. Correspondingly, producers receiving these higher prices are motivated to supply more of the good. These higher prices, when market determined, encourage more efficient use by consumers and greater productive output by producers. This increased efficiency in the use of the higher priced good by the consumer and the increased incentive to produce more of the good by producers brings about an ultimate improvement in total welfare.

When higher prices are generated by taxation, however, the market process is sabotaged. The signal gets short-circuited. The demand by consumers falls in response to the higher price, but the "tax wedge" prevents the signal from reaching the producers. The result is a transfer of wealth, equal to the tax, from the consumers to the tax collector.

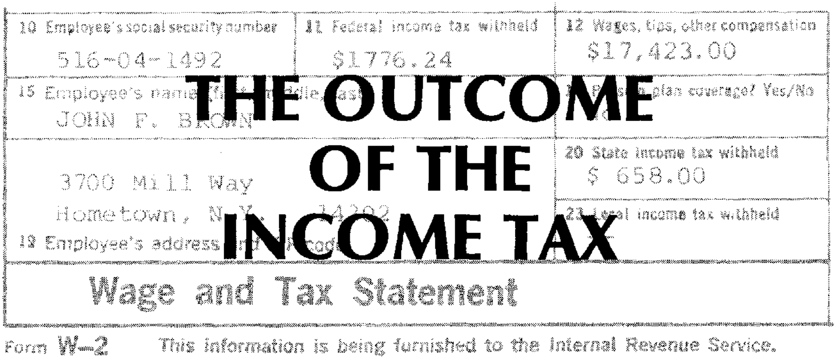
The public expenditure of the wealth collected by the tax invariably leads to the destruction of that wealth. Either through its consumption in wasteful activities (synfuel plants) or its employment in government regulation of future production (an energy department) the wealth collected by the tax is lost. The final result is a lower standard of living as the cost of living increases and productive activity declines.

The devastation to life and property from the destruction of the dam was visible to all. The evil of such sabotage could be clearly seen. But the sabotage by government taxation is never so visible. The unseen destruction of future prosperity by the political consumption of this wealth is every bit as devastating to our lives and property as the terrorist's bomb. But to see it requires an understanding of the economic forces in the marketplace that direct our lives.

An understanding of all of the economic consequences, both seen and unseen, is vital if we are to guard ourselves from this second kind of sabotage.

Scott W. Hahn

# THE OUTCOME OF THE INCOME TAX




*The moment you abandon the cardinal principle of exacting from all individuals the same proportion of their income or of their property, you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit . . .*

**—J. R. McCullough**

★ ★ ★

MORE than a century ago, a young radical proposed the notion that the specter of communism would inevitably rise up and conquer the world. However, several measures had to be taken before this proletarian utopia could be ushered in. Young Marx admitted that these necessary measures could not be brought about

> except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

One of the most significant of these proposed measures was the application of "a heavy progressive or graduated income tax."

For more than half a century, our nation has been experimenting with such a tax. Objections would be strenuously raised if one concluded that these American social "scientists" were consciously working to implement Marxist ideology. Indeed such name calling usually produces more heat than light. It would not be

**Mr. Hahn, a recent graduate of Grove City College where he majored in economics, theology, and philosophy, is now studying at Gordon-Conwell Theological Seminary.**

improper, however, to examine the effect that this graduated income tax has had upon the American society. For I believe that Marx was right. This progressive tax truly represents "a despotic inroad" which is "economically insufficient and untenable," thus "necessitating further inroads" upon the establishment of American liberty. Therefore, it would be profitable to discern how the graduated income tax has worked to subtly erode the economic, legal, and moral pillars upon which our nation has long rested.

### Attacks on Income and Economy

Especially as April fifteenth comes and goes, taxpayers across the country ache from the powerful one-two combination of inflation and graduated taxation. Throughout the economy, there have appeared signs of a sustained rate of double-digit inflation. This unfortunate reality, coupled with the currently steep rates of the graduated income tax, works as a double poison which is slowly crippling private enterprise. This is no small cause for concern. It is crucial that we perceive how this combination subtly erodes our economic substance. Such accurate perception is the prerequisite for proper action. And both are desperately needed to prevent our reeling economy from going down for the count. Let us then briefly examine the economic consequences of our graduated income tax in this age of inflation.

First of all, it is imperative that we recognize the current understanding and explanation of inflation for what it is: an economic myth. All are agreed that inflation is a dreadful evil which shortchanges the moneyholders. (The mainstream economists even assent to this fact.) All the while, however, these economists wag their tongues at the alleged "causes" of inflation: big business or labor unions. (Which side is blamed usually depends, of course, on the individual economist's own special interests.)

The accusations of these economists produce much legislation but little change in the inflation rate. Well, that's not quite true; the rate inevitably rises. So, everyone struggles to stay one step ahead of inflation. They hope to make a little profit or just break even. In order to do this, however, their money-income must steadily rise at or above the present inflation rate. Such income increases are maintained at no small cost to both labor and management alike. Social conflict also inevitably rises.

The manner in which mainstream economists ignore the actual cause of this economic calamity is as baffling as it is reprehensible. The history of economic thought must be unknown to these men, or else it has been rewritten. Whatever the case, the issue will remain obscure until it is clearly understood that the government's expansion of the currency and credit is truly the cause of inflation. (Actually, such expansion should be identified as inflation, properly defined.) Thus, we wait for the ebb of economic ignorance and watch as moneyholders continue to get shortchanged in the meantime.

If this reality only affected moneyholdings, it would be bad enough. However, insult is added to injury when people fill out their income tax returns and discover that their brutal struggle to stay even with inflation has lifted them into higher and more confiscatory rates of taxation. If inflation were not harsh enough, the graduated rate of income tax serves only to rub salt into their economic wounds. Such abuse inescapably wreaks havoc on an individual's incentive to produce.

## Inflation Speeds the Erosion

Actually, the inflation is not necessary for the graduated income tax to effectively erode the nation's economic foundation. It only serves to expedite the process. But the government betrays both its impatience and immoral intention by continually boosting the rate of inflation. Throughout the economy, the crunch is felt by all. The whole time, the ravenous reapers of revenue in Washington clean up.

One might think that Americans have always been subjected to this annual headache. Clearly, such is not the case. In fact, a Constitutional amendment was necessary before the graduated income tax could be legally loosed upon the American taxpayers in 1913. This fact alone serves to confirm one's suspicion that such a revenue measure was far from the intention of the founding fathers. In fact, prior to the amendment, it was commonly understood that such a tax flew in the face of the direct and proportioned taxes called for in the Constitution. Specifically, the progressive income tax marked a distinct break from the established principle of nondiscriminating uniformity in taxation. This principle had long been recognized as crucial to the balance and stability of the American market economy. It also was understood to be a necessary means to protect private property and sustain voluntary exchange.

The first century of American independence saw the majority of revenues coming from tariffs and duties. Taxation, when it occurred, was slight and proportioned so as to distribute the tax burden impartially. This all changed in 1913, when the relatively young income tax was apportioned upon a graduated scale. The break from tradition has been widening as the graduated scale has become steeper.

What was it that motivated such a distinctive break from the Constitution? It would be profitable to briefly examine the arguments put forth in favor of the graduated scale.

"The rich should pay a greater proportion of taxes!" "Only such a measure will actually bring about greater equality of sacrifice!" Generally speaking, these arguments in favor of the graduated income tax have been exposed for what they are: expressions of egalitarian ideology. There were very few arguments which gained any credence in economic circles as providing "scientific justification" for this social dogma of reform.

## Punishing Those Who Have Been Most Productive

One such case ostensibly providing rational grounds was the argument from "the decreasing marginal utility of successive acts of consumption."[1] In crude terms, this theory asserted that the rich entrepreneur, after making a cool million, would tend to value $10,000 less than would a typical American breadwinner. Such arguments, however, are rendered invalid by a proper understanding of marginal utility and subjective value. (This understanding goes all the way back to the last century when Boehm-Bawerk exposed the inadequate distinction between "use value" and "exchange value."[2]) And recently, even the most dedicated econometricians have abandoned the hope of being able to calculate and compare different subjective utilities between individuals. Such utility measurements are in fact as undesirable as they are unscientific! Therefore, the ultimate foundation for the graduated income tax seems to have been the dogma of social equality.

What, then, are the economic consequences of implementing this social dogma by establishing a progressive income tax? Quite simply, this graduated tax structure works to burden the economy in general and the most productive members in particular. This is so because there is a heavier, disproportionate tax upon those who earn the higher incomes. And in a market economy, the more productive people make the higher incomes. Thus, a greater proportion of capital is diverted from the most productive channels of the marketplace. Instead of funding productive investments, this disproportionate amount of income will find its way into the conspicuously consumptive hands of the federal government.

The graduated income tax will

[1]Friedrich A. Hayek, *The Constitution of Liberty* (South Bend, Ind.: Gateway Editions, 1972), p. 309.

[2]Eugen von Boehm-Bawerk, *Capital and Interest* (South Holland, Ill.: Libertarian Press, 1959), II, p. 160.

only serve to discourage initiative while dissolving incentive. For what man would be overly anxious to pool capital resources into a more productive combination if his profits will only serve to lift him into a steeper tax bracket which offsets his gains? Only the confident, daring, or masochistic would be interested. I think we can then accurately conclude that the graduated income tax is at work, even now, slowly consuming our substance and eroding the economic base of our independent republic. This parasite is as unnatural as it is unnecessary. Here Americans have gravely erred. We have sold our birthright of liberty for a mess of "progressive" pottage.

## The Distortion of Disproportion

The market order has often been depicted by its opponents as resting upon the competitive savagery of the *law of the jungle,* where only the strong survive. An examination of this disparaging allusion is not within the scope of this essay. Whether or not this was ever true, it could be more safely asserted that, with the dramatic reversal in social thought in this past century, we are now living in a society ensnarled in a *jungle of law.* The irony of it all is discomforting. The turning point came with an exchange of legal principles.

For centuries, the conflict raged in Europe between serfs and lords, peasants and monarchs. The issue at stake: the nature of the individual and his rights before the law. The outcome of the conflict marked a decisive victory for human liberty. "The equality of all men before the law" represented a most significant step in the progress of justice.

What did it all mean for America? The founding fathers viewed this hard-fought acquisition as the legal pillar which would support the republic. "Equality before the law" meant that where an individual stood before the court, he could be assured that his guilt or innocence would be determined without regard to his economic status. The law would judge all men impartially. As Benjamin Franklin stated: "The same for every member of the society; and the poorest continues to have an equal claim to them with the most opulent, whatever difference time, chance, or industry may occasion in their circumstances."

While the United States enjoyed legal stability within its land, European nations began toying with the notion of the progressive income tax. They seemed disinterested in understanding the legal struggle that their ancestors had undergone to establish impartiality within the rule of law. In 1891 Prussia began its social experiment with the graduated income tax. Many Americans and Europeans perceived the danger. Dissent was raised by many who argued that "the sacred principle of equality before the law" was "the only barrier against the encroachment on private property."[3] However, the argument fell on deaf ears as the progressive rate was too insignificant to render any force to the argument against graduated rates in principle.

In the meantime, American and British social reformers were sounding the battle cry for greater "equality of sacrifice." With the opposition's arguments rendered ineffective by the very smallness of the tax burden, these reformers did their homework. Within less than twenty years of Prussia's experiment, Great Britain succumbed to the progressive temptation.

America soon followed. So within one generation, the legal lessons learned and the advances made, after the centuries of struggle, were forgotten. It was felt that a majority, by the mere fact of its numerical strength, could apply a burden to the wealthier minority without being affected itself by an equal load.

At that point, any remainder of legal clarity was distorted beyond recognition. Granted, the graduated burden was seemingly light. However, any attempt to impose a limit in the future would be arbitrary and, inevitably, only temporary. Thus, once the floodgate was opened, there no longer existed any principle which could prevent the trickle from becoming a deluge.

So much was lost so quickly. Where the law had once been characterized by impartiality and predictability, it was now an arbitrary standard which was shifted by the will of the majority. A man's relation to the law was now greatly influenced, if not determined, by his economic status.

What can this produce but a conflict society? Suppose, after all, one man is taxed at one rate and his neighbor at a lower rate. Now this does not exactly create social harmony; rather it breeds suspicion and envy. So much of this confusion is brought about by a progressive income tax.

## The Oppression of Progression

The redistribution of income and property by progressive taxation is now universally recognized as a proper means to attain social justice. It has been argued in this essay that such a policy is at once economically unproductive and legally unjust. In addition, it is morally reprehensible, contradicting the principles which established the nation upon the foundation of freedom and justice.

These principles were formulated by men who comprehended that a nation had to be built and sustained by individuals who understood both

[3]Hayek, *op. cit.*, p. 310.

self-discipline and self-development. Anything less would not endure. So long as their actions did not violate the rights of another, men were free to pursue happiness according to the dictates of their own conscience. Hence, men learned that individual enterprise and self-reliance were gifts of God which were to be cultivated and utilized. As they were developed, the American people prospered.

In the midst of their prosperity, a subtle shift began to occur. The change was imperceptible at first. The results of the change, however, were most distinct. Perhaps the prosperity led to economic fatness, and fatness in turn led to moral flabbiness. Whatever the causes, the effects remain with us. Where there was once individual enterprise and self-reliance, there is now a growing dependence upon the state and federal governments. Accompanying this shift came a growing distrust directed toward the more productive members of the society.

This distrust has blossomed into open hostility. With the instrumentality of the progressive tax structure, this hostility has led to an economic and legal assault upon the wealth of these productive members. Prior to 1913, such hostility surely existed. But once a disproportionate tax was permitted to burden some more than others, the government then became the means of economic, legal, and moral oppression.

When a discriminating income tax is allowed to become the means of legal plunder, the spark of envy within the classes of men is fanned into a raging fire. No longer is the state able to restrain the fruits of covetousness; now it works to produce them. From the spark of envy to a conflagration of confiscation, the graduated income tax has led to democratic tyranny.

The progressive income tax has come upon us gradually. It began with a seemingly harmless maximum rate of 7 per cent. Yet within less than a generation, this rate climbed higher than 90 per cent. Of course "progressive" is a misnomer. "Aggressive" might be closer to the truth. But alas, perhaps "regressive" would be best, as this graduated tax policy has taken America back centuries—down the road to serfdom.

**Frederic Bastiat**

IDEAS ON LIBERTY

THE STATE is and ought to be nothing whatever but *community force* organized, not to be an instrument of oppression and mutual plunder among citizens, but, on the contrary, to guarantee to each his own, and to cause justice and security to reign.

**Bettina Bien Greaves**

# *Government Regulation of Mass Media Communication*

PEACEFUL RELATIONS among people depend on voluntary social cooperation. And the success of social cooperation rests in large part on ease of communication. With the development, many millennia ago, of primitive language and, in time, of the written word, interpersonal communication and cooperation could begin. Much more sophisticated and efficient ways of relaying ideas and knowledge have since been developed and communication techniques have changed radically since the time of footrunning couriers and town criers.

Our modern mass media of communication have been made possible by countless inventions and improvements made by unnumbered individuals over the years. Printing techniques and the production of paper, books and newspapers have been considerably improved. Today's very remarkable radio, TV, print and film industries are products of extremely complicated capital-intensive electrical, electronic and photographic technologies and equipment. Readers, listeners and viewers everywhere want these mechanical techniques of communication to be continually improved still more. They also want the quality of the material published, produced and broadcast to be upgraded so as to satisfy better their own personal interests.

**1. What information do people want to communicate and to have communicated to them?** One thinks first off of personal messages, letters and daily newspapers. But communication involves much more

Mrs. Greaves is a member of the senior staff of The Foundation for Economic Education and the author of the two-volume Basic Reader and Syllabus—*Free Market Economics.* For many years she has assembled material on national high school and college debate topics.

This essay deals with the subject of the current college debate resolutions.

than that. Access to theoretical, factual and historical knowledge accumulated throughout the centuries is most important. People also want to learn what others have been doing recently. They want reports on current events with comments, often critical of specific persons and their actions. They want to learn what their government is doing, or may do. They are interested in political events. They want to know about laws, proposed or enacted, and about actual or likely administrative decisions. They want reports on judicial procedures and court trials. They want to be able to petition their government. They want reports on business, production, trade and other economic activities. They want to know likely production costs, as well as what prices producers and retailers are asking for goods and services. They want to hear weather reports and forecasts. They want information on new products and scientific developments. They want entertainment. They follow competitive sports closely. They want to know about social events, as well as disasters, accidents, crimes. People now rely on mass media communication facilities for all these and many other kinds of information and entertainment.

**2. What forms of communication are used to transmit all this material?** The traditional mass media of communication are television, radio, print and/or film. But ideas, knowledge, factual data and entertainment are also transmitted by other means. Personal messages are delivered by hand, through the mails, by word of mouth and by telephone. Printed messages and commentaries appear in books, newspapers, pamphlets and on billboards. Radio and television offer news of all kinds, sports and entertainment, films, fictional and documentary, interviews with prominent personalities, advertising and much more. Modern loud speakers, often with radio and/or TV hook-up, enable speakers to be heard by hundreds, thousands, even millions, from outdoor lecture platforms or even a soap box, as well as in theaters or auditoriums.

Although not usually classified as communications media, schools and universities are among the most important means for transmitting from one generation to another the vast body of theoretical knowledge and factual data accumulated over centuries. And businessmen everywhere look to daily prices and stock market reports for information about anticipated prices and future demands for products throughout the world.

**3. How have communications media changed over the years?** Inventors and investors have substantially modified and improved communication facilities. Many more individuals may now transmit more messages to more people more quickly and more easily than ever before. We no longer need rely on direct word of mouth communication or hand-to-hand transmission of original messages.

Improvements in distribution came first. By wagon, coach, pony express, train, automobile and plane, messages could be delivered much faster than men could run, over much longer distances. Printing presses, rag and woodpulp papers, book binding equipment, strong glues, etc., improved the publishing of printed books and newspapers. With the development of electricity, photography, electronics, transistors, and so forth, the telegraph, ticker tape, telephone, radio, television, teletype, communication satellites, etc., became possible, permitting spoken words and pictures to be sent through the air. Using these modern techniques, any arrangement of words and photos may be transmitted promptly and accurately all around the world. Books, newspapers, statistics, films, radio broadcasts, TV shows, and the like, may be transmitted in precise and accurate reproduction.

Lies, distortions, propaganda and misinterpretations of truth are relayed just as faithfully as are truths, accurate data and reliable knowledge. The media themselves are merely tools created by individuals to facilitate communication. The media are not selective; they may be used for good or evil.

**4. How can we best assure that the media transmit truths, not lies?** The eagerness to know and to communicate often conflicts with the desire of individuals to live in privacy and to keep unpleasant matters hidden. Yet freedom of the press has been traditional in this country. Generally speaking, reporters have been free to write as they chose, so long as they were responsible for what they wrote. The broadcasting of libelous (defamatory) statements that destroy a person's reputation was generally considered a form of theft. Yet, since the trial of journalist John Peter Zenger (1697-1764) in colonial New York, a derogatory statement that was true was not considered libelous; to defend himself against charges of libel, an author had only to demonstrate his statement was true.

With recent technological advances, freedom of press principles have been expanded to apply to radio, TV, even films and all printed matter, as well as traditional newspapers. However, the principle of reporter responsibility has been diluted. Since *New York Times v. Sullivan* (1964), reporters have been free to publish almost anything, true or false, about "public figures," confident that they could not be charged with libel unless "actual malice" were proved. Some reporters now refuse to reveal the sources on which they base a story, claiming they promised anonymity to obtain information to satisfy their readers' "right to know." Some reporters have lost their jobs as a result. Some have even been jailed. Marie Torre, William T. Farr, Daniel Schorr, M. A. Farber are a few who refused to reveal sources.

However, the principle of a free press is not simply protecting the freedom of reporters to publish what they choose. How about the readers' "right to know" the source of a story, so as to judge bias and reliability in a particular instance? How about the constitutional right (Amendment VI) of a person being accused "to be confronted with the witnesses against him"? What will happen if reporters may write what they choose without any obligation to demonstrate its truth or to reveal sources? What assurance will the public then have of the reliability of news reporting?

**5. Suppose the federal government assumed responsibility for the quality and reliability of communications by strengthening its regulation of the media?** Government officials, like private individuals, would prefer at times not to be in the public eye; they would like to hide their mistakes, misjudgments and indiscretions. Yet private reporters want to uncover and publicize precisely the information government officials are most intent on concealing. Thus reporters and officials frequently become adversaries. If more power is given government, the officials gain the upper hand and can threaten recalcitrant reporters with reprisals. Classification of government documents as SECRET or CONFIDENTIAL (viz. the Pentagon Papers, released in 1971 by Daniel Ellsberg) may sometimes be used simply to avoid government embarrassment. Such a situation could lead, on the one hand, to censorship with the concealment of any information unfavorable to the government and, on the other hand, to propaganda with the release of pro-government handouts only.

**6. How does the federal government now influence the communications media?** The federal government now exercises considerable control over the private media, often by the back door—through FCC requirements with respect to licensing, radio-TV programming, allotment of time to public service and news programs, equal time provisions in political campaigns, free time for persons to answer criticism under the "fairness doctrine," advertising limitations, and so on. Government may also interfere through antitrust regulations, labor-

> IT is a sad fact that some people try to exploit their fellow men's plight by offering them patent medicines. . . . It would not impair the operation of the market if the authorities were to prevent such advertising. . . . But whoever is ready to grant to the government this power would be inconsistent if he objected to the demand to submit the statements of churches and sects to the same examination. Freedom is indivisible. As soon as one starts to restrict it, one enters upon a decline on which it is difficult to stop. If one assigns to the government the task of making truth prevail in the advertising of perfumes and tooth paste, one cannot contest it the right to look after truth in the more important matters of religion, philosophy, and social ideology.
>
> **LUDWIG VON MISES, *Human Action***

management relations, the SEC, CIA and FBI surveillance activities, etc. Government directly subsidizes some communications—through USIA, Radio Free Europe, CETA, the poverty program, aid to the arts, etc. Government is also concerned, necessarily, with publicity given court cases, for it may contribute to, or hamper, fair trials for defendants. All in all, the influence of the federal government over the media is considerably more pervasive than appears at first glance.

**7. What authority should the federal government have to regulate communications media?** The First Amendment to the Constitution provides that the Congress shall "make no law . . . abridging the freedom of speech, or of the press . . ." Generally speaking, the principles of a free press should prevail throughout the communications industry. Radio, television, printing, film production, etc., should all be completely private enterprises, financed entirely by the savings of private investors. They should be subject to free and open competition on the market, free to experiment, to try out new ideas, dependent for survival, like any other enterprise, on satisfying consumers.

In a completely free system, the communications media would rely for news of production costs and the demand for goods and services on pricing information communicated through the market. Government's obligation to them would be the same as to any other private enterprise—to protect them from those who would use force, fraud or threat of either to destroy life and property.

In war, truth inevitably becomes *The First Casualty*, as Phillip Knightley demonstrates in his book of that title. For patriotic and military reasons, reporters then usually submit willingly to censorship. But once war ends, freedom of the press principles should prevail. The communications media should then become once more the eternally vigilant "watchdog," reporting the news as accurately and as responsibly as possible.

Thomas Jefferson had profound confidence in a free press. He wrote, "Were it left to me to decide whether we should have a government without newspapers, or newspapers without a government, I should not hesitate to prefer the latter.... Reason and free inquiry are the only effectual agents against error." If all our communications media today —not only radio, TV, film and printing industries, but also schools, libraries, churches, theaters, advertisers, politicians, and so on—were relieved of the hampering effects of government regulations, controls, red tape and excess taxes, they would have to become more responsible to the ever-changing wishes of consumers, or go out of business. Those enterprises that succeeded best in presenting sound principle, truth and lively entertainment to their customers, in free and open competition with all other enterprises, would become increasingly more effective and vigorous communicators.

P. Dean Russell

# HOW TO PRODUCE HUMAN BEINGS

A FEATURE of our tour of a collective farm in China was a visit to the home of a worker. To my astonishment, our host had five children.

I wondered if he was aware of the policy of the State Council's family planning department. The chairwoman, Vice Premier Chen Muhua, summed up that policy in this clear statement: "The planned economy of socialism should make it possible to regulate the reproduction of human beings so that the population growth keeps in step with the growth of material production."

Five children in one family is *not* in harmony with the current level of material production in the People's Republic of China. In fact, the government's plan to equalize them is based on the production of no more than two children per couple—and one, or even none, is preferred.

At my request, our tour guide put this information into a question to our farmer-host. He listened carefully, smiled proudly, and replied that the official policy on *his* collective farm of 26,000 members is to permit the production of children until a son is born. He and his wife had produced four daughters before the son arrived. Then both were sterilized.

This policy on the production of human beings in China varies from province to province and, apparently, from collective to collective. Also the "child production allotment" appears to be larger on collective farms than in collective factories. Increasingly, however, the

**Dr. Russell, Professor of Management, University of Wisconsin at La Crosse, also gains economic insight from his observation of people and conditions around the world.**

philosophy now followed in rural Guizhou Province is becoming the norm for the nation: "The party organizations at all levels have called on the masses to resolutely deal blows to the criminals . . . [who] have used the masses' old ideas," (i.e., more sons, more bliss) to sabotage socialist population control measures.

Traditions die hard, however, in any society. Prime Minister Indira Gandhi also discovered this truth when she encouraged the use of force to sterilize people who refused to comply with her plans to decrease the population in India. Her successor as prime minister, Maraji Desai, once told me that Mrs. Gandhi's compulsory sterilization policies had far more to do with her political defeat than did the charges of corruption against her administration and family.

## Rewards and Penalties

In India and China, a combination of both "carrot and stick" measures are used in the attempt to keep the production of human beings in harmony with state plans. For example, free birth control devices, abortions, and sterilizations are readily available to all. These control measures are always actively promoted and are sometimes even enforced against reluctant participants. In some cities in China, e.g., Peking, the production of a third child may bring a fine of 10 per cent of pay for up to 14 years. One-child and no-child families in China are often rewarded by the government with *more* housing space and better job opportunities. These cooperating parents may also get special credits added to their retirement pensions.

Similar reward and punishment measures are used (in reverse) in western nations where the production of children is positively encouraged. For example, in Sweden the low birth rate is of great concern to the government. The allocation of scarce housing is one of several ways the government uses to *reward* the producers of more Swedish babies. During my two visits to Stockholm in the 1960s I found that the waiting time for an apartment was from four to ten years. But a woman could move to the top of the waiting list for scarce and low-rent housing if she became pregnant. That's a most persuasive production bonus in a society where there's a housing shortage.

In France with its declining birth rate, a friend of mine in Paris is paid more (directly and indirectly) by the government for his five children than he's paid (take home) by his employer. He once joked to me that his family is a two-income family; his wife is paid for producing more children while he's paid for producing more lectures.

In New York City, the payment of

various direct and indirect subsidies to families with dependent children usually adds up to considerably more than the parent could earn at any available job. And so on, in every nation of the world, with the government applying both carrot and stick to increase or decrease the production of human beings according to state plans.

## Motivation

There is a strong tendency by most persons in *any* society to take the job that offers the most material goods and services for the least effort. And quite frequently in various western nations, the government pays more for the production of children than the market pays for the production of goods and services.

This "reward principle" applies to the production of anything and everything, at all times, and in all nations. For example, when the state planners in Russia wanted more food produced, they permitted private farming, market pricing, and high profits. The socialist planners knew with certainty that the Russian farmers would respond to the profit motive in precisely the same way the managers of General Motors respond to the same motive. Both will produce more of the wanted products. In Poland, I observed people standing in line for three hours at the no-profit government stores while other people were getting immediate service in the "private sector" of the economy that operates on the profit motive.

This motivation to increase production, i.e., the basic desire of mankind to accumulate products and services for survival and comfort, is not restricted to any particular economic system. It is an inherent—not an acquired—characteristic. It came with the first human being, and every one of us today was born with it in our genes. Even the persons who use force in an effort to suppress this motivating principle "to get ahead" are themselves thereby trying to get ahead of the rest of us.

This acquisitive characteristic is responsible for all progress, including art by the old masters. The philosopher who argues how the "surplus" production should be distributed seems happily unaware that the surplus was produced by persons who expected to gain *something* from it personally. What did they expect to gain? Ask any producer, including yourself. While the answers will vary widely, they will all involve self-interest (including self-glorification and immortalization) in one way or another.

As my minister sincerely denounced the "root of all evil" in his sermons, I continued to help him in his search for a larger church that paid its pastor more money. I recommended him because he was a high producer and a good man in every sense of the word. He, too, wanted (and I think, deserved) more of the world's products and services.

What do you want more of? Babies? Tobacco? Chrysler cars? The secret of how to get them produced is known to everyone, in Russia as in the United States. Just pay a bigger bonus in one form or another, including the government's support of prices higher than the market would tolerate.

### Leave to the Individual the Choice and Its Consequences

What do you want less of? Babies? Rental housing and apartments? Investment in machinery? The secret of how to decrease production is also known to everyone, in China as in the United States. Just penalize such production in one way or another, including the government's setting of prices lower than the market would offer.

Personally, I'm not in favor of our government's rewarding or penalizing the producers of any product, most especially the producers of human beings. That's a bit too close to "playing God" for my taste. Perhaps we collectively (through our government) would be well advised neither to reward nor to penalize anyone for having or not having babies. Perhaps that decision should be left with the individuals who are *directly* concerned, and with no one else.

In retrospect, I just can't imagine that any government planning agency would have permitted me (unit number 11) to be added to the existing 10 children already produced by a dirt-poor family in the Virginia mountains. Even the worst of the bureaucratic planners couldn't make such an obvious blunder as that.

I think of that when I take the government-granted income tax deduction for my own children. If I ask the government to reward me with tax rebates (and other subsidies) for producing human beings, I have no moral ground to stand on when the government planners decide to penalize me for it. If they have the right to do the one, then most definitely they have the right to do the other.

IDEAS ON LIBERTY

**The Right to Choose**

It must be obvious that liberty necessarily means freedom to choose foolishly as well as wisely; freedom to choose evil as well as good; freedom to enjoy the rewards of good judgment, and freedom to suffer the penalties of bad judgment.

BEN MOREELL, "Survival of the Species"

Ludwig von Mises

# Inflation

IF the supply of caviar were as plentiful as the supply of potatoes, the price of caviar—that is, the exchange ratio between caviar and money or caviar and other commodities—would change considerably. In that case, one could obtain caviar at a much smaller sacrifice than is required today. Likewise, if the quantity of money is increased, the purchasing power of the monetary unit decreases, and the quantity of goods that can be obtained for one unit of this money decreases also.

When, in the sixteenth century, American resources of gold and silver were discovered and exploited, enormous quantities of the precious metals were transported to Europe. The result of this increase in the quantity of money was a general tendency toward an upward movement of prices. In the same way, today, when a government increases the quantity of paper money, the result is that the purchasing power of the monetary unit begins to drop, and so prices rise. This is called *inflation*.

Unfortunately, in the United States, as well as in other countries, some people prefer to attribute the cause of inflation not to an increase in the quantity of money but, rather, to the rise in prices.

However, there has never been any serious argument against the economic interpretation of the relationship between prices and the quantity of money, or the exchange ratio between money and other goods, commodities, and services. Under present day technological conditions there is nothing easier than to manufacture pieces of paper upon which certain monetary amounts are printed. In the United States, where all the notes are of the same size, it does not cost the government more to print a bill of a thousand dollars than it does to print a bill of one dollar. It is purely a printing procedure that requires the same quantity of paper and ink.

Ludwig von Mises, 1881-1973, was one of the great defenders of a rational economic science, and perhaps the single most creative mind at work in this field in our century.

Found among the papers of Dr. Mises were transcripts of lectures he delivered in Argentina in 1959. These have now been edited by his widow and are available as a Regnery/Gateway paperbacked book. This article, one of the lectures, is here reprinted by permission of the publishers. 

The book, *Economic Policy: Thoughts for Today and Tomorrow*, also may be purchased at $4.95 from The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

In the eighteenth century, when the first attempts were made to issue bank notes and to give these bank notes the quality of legal tender—that is, the right to be honored in exchange transactions in the same way that gold and silver pieces were honored—the governments and nations believed that bankers had some secret knowledge enabling them to produce wealth out of nothing. When the governments of the eighteenth century were in financial difficulties, they thought all they needed was a clever banker at the head of their financial management in order to get rid of all their difficulties.

Some years before the French Revolution, when the royalty of France was in financial trouble, the king of France sought out such a clever banker, and appointed him to a high position. This man was, in every regard, the opposite of the people who, up to that time, had ruled France. First of all he was not a Frenchman, he was a foreigner—a Genevese. Secondly, he was not a member of the aristocracy, he was a simple commoner. And what counted even more in eighteenth century France, he was not a Catholic, but a Protestant. And so Monsieur Necker, the father of the famous Madame de Staël, became the minister of finance, and everyone expected him to solve the financial problems of France. But in spite of the high degree of confidence Monsieur Necker enjoyed, the royal cashbox remained empty—Necker's greatest mistake having been his attempt to finance aid to the American colonists in their war of independence against England *without raising taxes*. That was certainly the wrong way to go about solving France's financial troubles.

## No Secret Source of Funds

There can be no secret way to the solution of the financial problems of a government; if it needs money, it has to obtain the money by taxing its citizens (or, under special conditions, by borrowing it from people who have the money). But many governments, we can even say *most* governments, think there is another method for getting the needed money; simply to print it.

If the government wants to do something beneficial—if, for example, it wants to build a hospital—the way to find the needed money for this project is to tax the citizens and build the hospital out of tax revenues. Then no special "price revolution" will occur, because when the government collects money for the construction of the hospital, the citizens—having paid the taxes—are forced to reduce their spending. The individual taxpayer is forced to restrict either his consumption, his investments or his savings. The government, appearing on the market as a buyer, *replaces* the individual citizen: the citizen buys less, but the government buys more. The government, of course, does not always buy the same goods which the citizens would have bought; but on the average there occurs no rise in prices due to the government's construction of a hospital.

I choose this example of a hospital precisely because people sometimes say: "It makes a difference whether the government uses its money for good or for bad purposes." I want to assume that the government *always* uses the money which it has printed for the best possible purposes—purposes with which we all agree. For it is not the *way* in which the money is spent, it is the way in which the government *obtains* this money that brings about those consequences we call inflation and which most people in the world today do not consider as beneficial.

For example, without inflating, the government could use the tax-collected money for hiring new employees or for raising the salaries of those who are already in government service. Then these people, whose salaries have been increased, are in a position to buy more. When the government taxes the citizens and uses this money to increase the salaries of government employees, the taxpayers have less to spend, but the government employees have more. Prices in general will not increase.

But if the government does not use tax money for this purpose, if it uses freshly printed money instead, it means that there will be people who now have more money while all other people still have as much as they had before. So those who received the newly-printed money will be competing with those people who were buyers before. And since there are no more commodities than there were previously, but there *is* more money on the market—and since there are now people who can buy more today than they could have bought yesterday—there will be an additional demand for that same quantity of goods. Therefore prices will tend to go up. This cannot be avoided, no matter what the use of this newly-issued money will be.

And most importantly, this tendency for prices to go up will develop step by step; it is not a general upward movement of what has been called the "price level." The metaphorical expression "price level" must never be used.

When people talk of a "price level," they have in mind the image of a level of a liquid which goes up or down according to the increase or decrease in its quantity, but which, like a liquid in a tank, always rises evenly. But with prices, there is no such thing as a "level." Prices do not change to the same extent at the same time. There are always prices that are changing more rapidly, rising or falling more rapidly than other prices. There is a reason for this.

## Early Beneficiaries

Consider the case of the government employee who received the new money added to the money supply. People do not buy today precisely the same commodities and in the same quantities as they did yesterday. The additional money which the government has printed and introduced into the market is not used for the purchase of *all* commodities and services. It is used for the purchase of certain commodities, the prices of which will rise, while other commodities will still remain at the prices that prevailed before the new money was put on the market. Therefore, when inflation starts, different groups within the population are affected by this inflation, in different ways. Those groups who get the new money first, gain a temporary benefit.

When the government inflates in order to wage a war, it has to buy munitions, and the first to get the additional money are the munition industries and the workers within these industries. These groups are now in a very favorable position. They have higher profits and higher wages; their business is moving. Why? Because they were the first to receive the additional money. And having now more money at their disposal, they are buying. And they are buying from other people who are manufacturing and selling the commodities that these munition makers want.

These other people form a second group. And this second group considers inflation to be very good for business. Why not? Isn't it wonderful to sell more? For example, the owner of a restaurant in the neighborhood of a munitions factory says: "It is really marvelous! The munition workers have more money; there are many more of them now than before; they are all patronizing my restaurant; I am very happy about it." He does not see any reason to feel otherwise.

The situation is this: those people

to whom the money comes first now have a higher income, and they can still buy many commodities and services at prices which correspond to the previous state of the market, to the condition that existed on the eve of inflation. Therefore, they are in a very favorable position. And thus inflation continues step by step, from one group of the population to another. And all those to whom the additional money comes at the early stage of inflation are benefited because they are buying some things at prices still corresponding to the previous stage of the exchange ratio between money and commodities.

### Others Must Lose

But there are other groups in the population to whom this additional money comes much, much later. These people are in an *unfavorable* position. Before the additional money comes to them they are forced to pay higher prices than they paid before for some—or for practically all—of the commodities they wanted to purchase, while their income has remained the same, or has not increased proportionately with prices.

Consider for instance a country like the United States during the Second World War; on the one hand, inflation at that time favored the munitions workers, the munition industries, the manufacturers of guns, while on the other hand it worked against other groups of the population. And the ones who suffered the greatest disadvantages from inflation were the teachers and the ministers.

As you know, a minister is a very modest person who serves God and must not talk too much about money. Teachers, likewise, are dedicated persons who are supposed to think more about educating the young than about their salaries. Consequently, the teachers and ministers were among those who were most penalized by inflation, for the various schools and churches were the last to realize that they must raise salaries. When the church elders and the school corporations finally discovered that, after all one should also raise the salaries of those dedicated people, the earlier losses they had suffered still remained.

For a long time, they had to buy less than they did before, to cut down their consumption of better and more expensive foods, and to restrict their purchase of clothing—because prices had already adjusted upward, while their income, their salaries, had not yet been raised. (This situation has changed considerably today, at least for teachers.)

There are therefore always different groups in the population being affected differently by inflation. For some of them, inflation is not so bad;

they even ask for a continuation of it, because they are the first to profit from it. We will see, in the next lecture, how this unevenness in the consequences of inflation vitally affects the politics that lead toward inflation.

Under these changes brought about by inflation, we have groups who are favored and groups who are directly profiteering. I do not use the term "profiteering" as a reproach to these people, for if there is someone to blame, it is the government that established the inflation. And there are always people who *favor* inflation, because they realize what is going on sooner than other people do. Their special profits are due to the fact that there will necessarily be unevenness in the process of inflation.

### Inflation as a Tax

The government may think that inflation—as a method of raising funds—is better than taxation, which is always unpopular and difficult. In many rich and great nations, legislators have often discussed, for months and months, the various forms of new taxes that were necessary because the parliament had decided to increase expenditures. Having discussed various methods of getting the money by taxation, they finally decided that perhaps it was better to do it by inflation.

But of course, the word "inflation" was not used. The politician in power who proceeds toward inflation does not announce: "I am proceeding toward inflation." The technical methods employed to achieve the inflation are so complicated that the average citizen does not realize inflation has begun.

During one of the biggest inflations in history, in the German Reich after the First World War, the inflation was not so momentous during the war. It was the inflation *after* the war that brought about the catastrophe. The government did not say: "We are proceeding toward inflation." The government simply borrowed money very indirectly from the central bank. The government did not have to ask how the central bank would find and deliver the money. The central bank simply printed it.

Today the techniques for inflation are complicated by the fact that there is checkbook money. It involves another technique, but the result is the same. With the stroke of a pen, the government creates *fiat* money, thus increasing the quantity of money and credit. The government simply issues the order, and the fiat money is there.

The government does not care, at first, that some people will be losers, it does not care that prices will go up. The legislators say: "This is a wonderful system!" But this wonderful system has one fundamental weakness: it cannot last. If inflation could go on forever, there would be no point in telling governments they should not inflate. But the certain fact about inflation is that, sooner or later, it must come to an end. It is a policy that cannot last.

In the long run, inflation comes to an end with the breakdown of the currency—to a catastrophe, to a situation like the one in Germany in 1923. On August 1, 1914, the value of the dollar was four marks and twenty pfennigs. Nine years and three months later, in November 1923, the dollar was pegged at 4.2 trillion marks. In other words, the mark was worth nothing. It no longer had *any* value.

Some years ago, a famous author wrote: "In the long run we are all dead." This is certainly true, I am sorry to say. But the question is, how short or long will the short run be? In the eighteenth century there was a famous lady, Madame de Pompadour, who is credited with the dictum: "Après nous le déluge" ("After us will come the flood"). Madame de Pompadour was happy enough to die in the short run. But her successor in office, Madame du Barry, outlived the short run and was beheaded in the long run. For many people the "long run" quickly becomes the "short run"—and the longer inflation goes on the sooner the "short run."

How long can the short run last? How long can a central bank continue an inflation? Probably as long as people are convinced that the government, sooner or later, but certainly not too late, will stop printing money and thereby stop decreasing the value of each unit of money.

### The Flight from Money

When people no longer believe this, when they realize that the government will go on and on without any intention of stopping, then they begin to understand that prices tomorrow will be higher than they are today. Then they begin buying at any price, causing prices to go up to such heights that the monetary system breaks down.

I refer to the case of Germany, which the whole world was watching. Many books have described the events of that time. (Although I am no German, but an Austrian, I saw everything from the inside: in Austria, conditions were not very different from those in Germany; nor were they much different in many other European countries.) For several years, the German people believed that their inflation was just a temporary affair, that it would soon come to an end. They believed it for almost nine years, until the summer of 1923. Then, finally, they began to doubt. As the inflation continued, people thought it wiser to buy everything available, instead of keeping money in their pockets. Furthermore, they reasoned that one should not give loans of money, but on the contrary, that it was a very good idea to be a debtor. Thus inflation continued feeding on itself.

And it went on in Germany until exactly August 28, 1923. The masses had believed inflation money to be real money, but then they found out that conditions had changed. At the end of the German inflation, in the fall of 1923, the German factories paid their workers every morning in advance for the day. And the workingman who came to the factory with his wife, handed his wages—all the millions he got—over to her immediately. And the lady immediately went to a shop to buy something, no matter what. She realized what most people knew at that time—that overnight, from one day to another, the mark lost 50% of its purchasing power. Money, like chocolate on a hot oven, was melting in the pockets of the people. This last phase of German inflation did not last long; after a few days, the whole nightmare was over: the mark was valueless and a new currency had to be established.

Lord Keynes, the same man who said that in the long run we are all dead, was one of the long line of inflationist authors of the twentieth century. They all wrote against the gold standard. When Keynes attacked the gold standard, he called it a "barbarous relic." And most people today consider it ridiculous to speak of a return to the gold standard. In the United States, for instance, you are considered to be more or less a dreamer if you say: "Sooner or later, the United States will have to return to the gold standard."

Yet the gold standard has one tremendous virtue: the quantity of the money supply, under the gold standard, is independent of the policies of governments and political parties. This is its advantage. It is a form of protection against spendthrift governments. If, under the gold standard, a government is asked to spend money for something new, the minister of finance can say: "And where do I get the money? Tell me, first, how I will find the money for this additional expenditure."

## A Restraint on Spending

Under an inflationary system, nothing is simpler for the politicians to do than to order the government printing office to provide as much money as they need for their projects. Under a gold standard, sound government has a much better chance; its leaders can say to the people and to the politicians: "We can't do it unless we increase taxes."

But under inflationary conditions, people acquire the habit of looking upon the government as an institution with limitless means at its disposal: the state, the government, can do anything. If, for instance, the nation wants a new highway system, the government is expected to build it. But where will the government get the money?

One could say that in the United States today—and even in the past, under McKinley—the Republican party was more or less in favor of sound money and of the gold standard, and the Democratic party was in favor of inflation. Of course not a paper inflation, but of silver.

It was, however, a Democratic president of the United States, President Cleveland, who at the end of the 1880s vetoed a decision of Congress, to give a small sum—about $10,000—to help a community that had suffered some disaster. And President Cleveland justified his veto by writing: "While it is the duty of the citizens to support the government, it is not the duty of the government to support the citizens." This is something which every statesman should write on the wall of his office to show to people who come asking for money.

I am rather embarrassed by the necessity to simplify these problems. There are so many complex problems in the monetary system, and I would not have written volumes about them if they were as simple as I am describing them here. But the fundamentals are precisely these: if you increase the quantity of money, you bring about the lowering of the purchasing power of the monetary unit. This is what people whose private affairs are unfavorably affected do not like. People who do not benefit from inflation are the ones who complain.

### A Worldwide Plague

If inflation is bad and if people realize it, why has it become almost a way of life in all countries? Even some of the richest countries suffer from this disease. The United States today is certainly the richest country in the world, with the highest standard of living. But when you travel in the United States, you will discover that there is constant talk about inflation and about the necessity to stop it. But they only talk; they do not act.

To give you some facts: after the First World War, Great Britain returned to the prewar gold parity of the pound. That is, it revalued the pound upward. This increased the purchasing power of every worker's wages. In an unhampered market the nominal *money* wage would have fallen to compensate for this and the workers' *real* wage would not have suffered. We do not have time here to discuss the reasons for this. But the unions in Great Britain were unwilling to accept an adjustment of wage rates to the higher purchasing power of the monetary unit, therefore *real* wages were raised considerably by this monetary measure. This was a serious catastrophe for England, because Great Britain is a predominantly industrial country that has to import its raw materials, half-finished goods, and food stuffs in order to live, and has to export manufactured goods to pay for these imports. With the rise in the international value of the pound, the price of British goods rose on foreign markets and sales and exports declined. Great Britain had, in effect, priced itself out of the world market.

The unions could not be defeated. You know the power of a union today. It has the right, practically the privilege, to resort to violence. And a union order is, therefore, let us say, not less important than a government decree. The government decree is an order for enforcement for which the enforcement apparatus of the government—the police—is ready. You must obey the government decree, otherwise you will have difficulties with the police.

## The Impact of Unions

Unfortunately, we have now, in almost all countries all over the world, a second power that is in a position to exercise force: the labor unions. The labor unions determine wages and the strikes to enforce them in the same way in which the government might decree a minimum wage rate. I will not discuss the union question now; I shall deal with it later. I only want to establish that it is the union policy to raise wage rates *above* the level they would have on an unhampered market. As a result, a considerable part of the potential labor force can be employed only by people or industries that are prepared to suffer losses. And, since businesses are not able to keep on suffering losses, they close their doors and people become unemployed. The setting of wage rates above the level they would have on the unhampered market always results in the unemployment of a considerable part of the potential labor force.

In Great Britain, the result of high wage rates enforced by the labor unions was lasting unemployment, prolonged year after year. Millions of workers were unemployed, production figures dropped. Even experts were perplexed. In this situation the British government made a move which it considered an indispensable, emergency measure: it *devalued* its currency.

The result was that the purchasing power of the money wages, upon which the unions had insisted, was no longer the same. The *real* wages, the commodity wages, were reduced. Now the worker could not buy as much as he had been able to buy before, even though the nominal wage rates remained the same. In this way, it was thought, *real* wage rates would return to free market levels and unemployment would disappear.

This measure—devaluation—was adopted by various other countries, by France, the Netherlands, and Belgium. One country even resorted twice to this measure within a period of one year and a half. That country was Czechoslovakia. It was a surreptitious method, let us say, to thwart the power of the unions. You could not call it a real success, however.

### Indexation

After a few years, the people, the workers, even the unions, began to understand what was going on. They came to realize that currency devaluation had reduced their real wages. The unions had the power to oppose this. In many countries they inserted a clause into wage contracts providing that money wages must go up automatically with an increase in prices. This is called *indexing*. The unions became index conscious. So, this method of reducing unemployment that the government of Great Britain started in 1931—which was later adopted by almost all important governments—this method of "solving unemployment" no longer works today.

In 1936, in his *General Theory of Employment, Interest and Money*, Lord Keynes unfortunately elevated this method—those emergency measures of the period between 1929 and 1933—to a *principle*, to a fundamental system of policy. And he justified it by saying, in effect: "Unemployment is bad. If you want unemployment to disappear you must inflate the currency."

He realized very well that wage rates can be too high for the market, that is, too high to make it profitable for an employer to increase his work force, thus too high from the point of view of the total working population, for with wage rates imposed by unions above the market level, only a part of those anxious to earn wages can obtain jobs.

And Keynes said, in effect: "Certainly mass unemployment, prolonged year after year, is a very unsatisfactory condition." But instead of suggesting that wage rates could and should be adjusted to market conditions, he said, in effect: "If one devalues the currency and the workers are not clever enough to realize it, they will not offer resistance against a drop in real wage rates, as long as nominal wage rates remain the same." In other words, Lord Keynes was saying that if a man gets the same amount of sterling today as he got before the currency was devalued, he will not realize that he is, in fact, now getting less.

In old fashioned language, Keynes proposed cheating the workers. Instead of declaring openly that wage rates must be adjusted to the conditions of the market—because, if they are not, a part of the labor force will inevitably remain unemployed—he said, in effect: "Full employment can be reached only if you have inflation. Cheat the workers." The most interesting fact, however, is that when his *General Theory* was published, it was no longer possible to cheat, because people had already become index conscious. But the goal of full employment remained.

### Full Employment

What does "full employment" mean? It has to do with the unhampered labor market, which is not manipulated by the unions or by the government. On this market, wage rates for every type of labor tend to reach a level where everybody who wants a job can get one and every employer can hire as many workers as he needs. If there is an increase in the demand for labor, the wage rate will tend to be greater, and if fewer workers are needed, the wage rate will tend to fall.

The only method by which a "full employment" situation can be brought about is by the maintenance of an unhampered labor market. This is valid for every kind of labor and for every kind of commodity.

What does a businessman do who wants to sell a commodity for five dollars a unit? When he cannot sell it at that price, the technical business expression in the United States is, "the inventory does not move." But it *must* move. He cannot retain things because he must buy something new; fashions are changing. So he sells at a lower price. If he cannot sell the merchandise at five dollars, he must sell it at four. If he cannot sell it at four, he must sell it at three. There is no other choice as long as he stays in business. He may suffer losses, but these losses are due to the fact that his anticipation of the market for his product was wrong.

It is the same with the thousands and thousands of young people who come every day from the agricultural districts into the city, trying to earn money. It happens so in every industrial nation. In the United States they come to town with the idea that they should get, say, a hundred dollars a week. This may be impossible. So if a man cannot get a job for a hundred dollars a week, he must try to get a job for ninety or eighty dollars, and perhaps even less. But if he were to say—as the unions do— "one hundred dollars a week or nothing," then he might have to remain unemployed. (Many do not mind being unemployed, because the government pays unemployment benefits—out of special taxes levied on the employers—which are sometimes nearly as high as the wages the man would receive if he were employed.)

Because a certain group of people believes that full employment can be attained only by inflation, inflation is accepted in the United States. But people are discussing the question: Should we have a sound currency with unemployment, or inflation with full employment? This is in fact a very vicious analysis.

## Clarifying the Problem

To deal with this problem we must raise the question: How can one improve the condition of the workers and of all other groups of the population? The answer is: by maintaining an unhampered labor market and thus achieving full employment. Our dilemma is, shall the market determine wage rates or shall they be determined by union pressure and compulsion? The dilemma is *not* "shall we have inflation or unemployment?"

This mistaken analysis of the problem is argued in England, in European industrial countries and even in the United States. And some people say: "Now look, even the United States is inflating. Why should we not do it also."

To these people one should answer first of all: "One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man." And this is the situation of the United States. The financial policy of the United States is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries.

The most important thing to remember is that inflation is not an act of God, that inflation is not a catastrophe of the elements or a disease that comes like a plague. Inflation is a *policy*—a deliberate policy of people who resort to inflation because they consider it to be a lesser evil than unemployment. But the fact is that, in the not very long run, inflation does *not* cure unemployment.

Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one regards inflation as an evil, then one has to stop inflating. One has to balance the budget of the government. Of course, public opinion must support this; the intellectuals must help the people to understand. Given the support of public opinion, it is certainly possible for the people's elected representatives to abandon the policy of inflation.

We must remember that, in the long run, we may all be dead and certainly will be dead. But we should arrange our earthly affairs, for the short run in which we have to live, in the best possible way. And one of the measures necessary for this purpose is to abandon inflationary policies.

Donald L. Kemmerer

# THE ROTTING FABRIC OF TRUST

As we drove from New Delhi to Agra to see India's famous Taj Mahal, we passed through extremely primitive villages. There was not a petrol can, broken umbrella or empty bottle to be seen. We thought, "Perhaps a Time Machine has carried us back 1000 years or more." In one dusty hamlet we saw an Indian woman wearing a crude anklet of silver. The reason for this abysmal squalor struck us. That silver was all her savings and no one was going to take it from her. She didn't trust her neighbors and they didn't trust anyone either. There could be no banks, and businessmen found it almost impossible to borrow. Progress was at a standstill and had been for centuries because an all-important ingredient was missing in that economy, the fabric of trust between men, that enables them to work together willingly toward productive ends.

When men work with tools and equipment—economists call these capital—they can produce more than when they work with bare hands. But to produce capital it takes a willingness to save and to invest those savings. And men will save little and invest less unless they trust their fellow men as individuals and believe that their prop-

**Dr. Kemmerer, president of The Committee for Monetary Research and Education, Inc., taught economic history for many years at the University of Illinois.**

erty and savings will be safe and that the money of the realm will hold its buying power. These are the warp and woof of the fabric of trust.

### Aggravated Inflation

In the United States today, due to government-caused expansion of the supply of money and credit, inflation is raging at a rate of about 13 per cent a year, double what it was two years ago. If this continues, the dollar will lose half of its present buying power in six years. That present buying power is only a fifth of what it was in 1933. Those conditions are not conducive to saving. The rate of saving and of capital investment is five per cent a year, the lowest among major modern nations.

Such misuse of power by government sets a bad example to many who then lash back at government and often at others too. The government should set an example of trustworthiness. Its courts punish counterfeiters, embezzlers and thieves. To find the government itself engaged in similar actions is demoralizing. A government that inflates and destroys the buying power of its money pours, as it were, a destructive acid over the economy's fabric of trust which rots the fabric and seriously damages the economy.

Just how suspicious Americans are of their government's money can be seen by the fact that millions of them are putting more and more of the savings they have left into gold, silver, diamonds, rare coins, stamps and paintings and antique furniture, to name just some items. All of these they increasingly look upon as preferable to banking their money, the buying power of which melts away like an ice cube in July. The degree of distrust can be gauged by the fact that the prices of these non-income producing "stores of value" have been bid up much higher than wholesale or consumer price levels have risen. Whereas price levels today are five times higher than in 1933, the price of gold is 29 times higher, of silver at least 70 times and of precious gems 20 to 60 times higher. These prices rise out of distrust and fear more than they do from speculation.

Inflation is rotting away the fabric of trust which helped so much to make this nation economically strong. Fear is rendering a growing portion of our savings as unproductive as that Indian woman's anklet. President Carter has said we must lower our standard of living. He and Congress, and preceding administrations too, by their inflationary policies, have been bringing on that lowering process for some time. Let us hope that we never regress to conditions in those Indian villages, but we are headed in that direction. That precious fabric of trust is disintegrating before our eyes.

**Lawrence W. Reed**

# WITCH-HUNTING FOR ROBBER BARONS:

## *The Standard Oil Story*

AMONG the great misconceptions of the free economy is the widely-held belief that "laissez faire" embodies a natural tendency toward monopoly concentration. Under unfettered capitalism, so goes the familiar refrain, large firms would systematically devour smaller ones, corner markets, and stamp out competition until every inhabitant of the land fell victim to their power. Just as popular is the notion that John D. Rockefeller's Standard Oil Company of the late 1800s gave substance to such an evil course of events.

Regarding Standard Oil's chief executive, one noted historian writes, "He (Rockefeller) iron-handedly ruined competitors by cutting prices until his victim went bankrupt or sold out, whereupon higher prices would be likely to return."[1]

Two other historians, co-authors of a popular college text, opine that "Rockefeller was a ruthless operator who did not hesitate to crush his competitors by harsh and unfair methods."[2]

In 1899, Standard refined 90 per cent of America's oil—the peak of the company's dominance of the refining business. Though that market share was steadily siphoned off by competitors after 1899, the company nonetheless has been branded ever since as "an industrial octopus."

Does the story of Standard Oil really present a case *against* the free market? In my opinion, it most emphatically does not. Furthermore, setting the record straight on this issue must become an important weapon in every free market advocate's intellectual arsenal. That's

**Mr. Reed is Assistant Professor of Economics at Northwood Institute in Midland, Michigan. This article is based upon one of his lectures for a course, "Philosophy of American Life and Business."**

the purpose of the following remarks.

Theoretically, there are two kinds of monopoly: coercive and efficiency. A coercive monopoly results from, in the words of Adam Smith, "a government grant of exclusive privilege." Government, in effect, must take sides in the market in order to give birth to a coercive monopoly. It must make it difficult, costly, or impossible for anyone but the favored firm to do business.

The United States Postal Service is an example of this kind of monopoly. By law, no one can deliver first class mail except the USPS. Fines and imprisonment (coercion) await all those daring enough to compete.

In some other cases, the government may not ban competition outright, but simply bestow privileges, immunities, or subsidies on one firm while imposing costly requirements on all others. Regardless of the method, a firm which enjoys a coercive monopoly is in a position to harm the consumer and get away with it.

An efficiency monopoly, on the other hand, earns a high share of a market because it does the best job. It receives no special favors from the law to account for its size. Others are free to compete and, if consumers so will it, to grow as big as the "monopoly."

An efficiency monopoly has no legal power to compel people to deal with it or to protect itself from the consequences of its unethical practices. It can only attain bigness through its excellence in satisfying customers and by the economy of its operations. An efficiency monopoly which turns its back on the very performance which produced its success would be posting a sign, "COMPETITORS WANTED." The market rewards excellence and exacts a toll on mediocrity.

It is my contention that the historical record casts the Standard Oil Company in the role of efficiency monopoly—a firm to which consumers repeatedly awarded their votes of confidence.

The oil rush began with the discovery of oil by Colonel Edwin Drake at Titusville, Pennsylvania in 1859. Northwestern Pennsylvania soon "was overrun with businessmen, speculators, misfits, horse dealers, drillers, bankers, and just plain hell-raisers. Dirt-poor farmers leased land at fantastic prices, and rigs began blackening the landscape. Existing towns jammed full overnight with 'strangers,' and new towns appeared almost as quickly."[3]

In the midst of chaos emerged young John D. Rockefeller. An exceptionally hard-working and thrifty man, Rockefeller transformed his early interest in oil into a partnership in the refinery stage of the business in 1865.

Five years later, Rockefeller formed the Standard Oil Company with 4 per cent of the refining market. Less than thirty years later, he reached that all-time high of 90 per cent. What accounts for such stunning success?

On December 30, 1899, Rockefeller was asked that very question before a governmental investigating body called the Industrial Commission. He replied:

> I ascribe the success of the Standard to its consistent policy to make the volume of its business large through the merits and cheapness of its products. It has spared no expense in finding, securing, and utilizing the best and cheapest methods of manufacture. It has sought for the best superintendents and workmen and paid the best wages. It has not hesitated to sacrifice old machinery and old plants for new and better ones. It has placed its manufactories at the points where they could supply markets at the least expense. It has not only sought markets for its principal products, but for all possible by-products, sparing no expense in introducing them to the public. It has not hesitated to invest millions of dollars in methods of cheapening the gathering and distribution of oils by pipe lines, special cars, tank steamers, and tank wagons. It has erected tank stations at every important railroad station to cheapen the storage and delivery of its products. It has spared no expense in forcing its products into the markets of the world among people civilized and uncivilized. It has had faith in American oil, and has brought together millions of money for the purpose of making it what it is, and holding its markets against the competition of Russia and all the many countries which are producers of oil and competitors against American oil.[4]

## A Master Organizer of Men and Materials

Rockefeller was a managerial genius—a master organizer of men as well as of materials. He had a gift for bringing devoted, brilliant, and hard-working young men into his organization. Among his most outstanding associates were H. H. Rogers, John D. Archbold, Stephen V. Harkness, Samuel Andrews, and Henry M. Flagler. Together they emphasized efficient economic operation, research, and sound financial practices. The economic excellence of their performance is described by economist D. T. Armentano:

> Instead of buying oil from jobbers, they made the jobbers' profit by sending their own purchasing men into the oil region. In addition, they made their own sulfuric acid, their own barrels, their own lumber, their own wagons, and their own glue. They kept minute and accurate records of every item from rivets to barrel bungs. They built elaborate storage facilities near their refineries. Rockefeller bargained as shrewdly for crude as anyone before or since. And Sam Andrews coaxed more kerosene from a barrel of crude than could the competition. In addition, the Rockefeller firm put out the cleanest-burning kerosene, and managed to dispose of most of the residues like lubricating oil, paraffin, and vaseline at a profit.[5]

Even muckraker Ida Tarbell, one of Standard's critics, admired the company's streamlined processes of production:

Not far away from the canning works, on Newton Creek, is an oil refinery. This oil runs to the canning works, and, as the newmade cans come down by a chute from the works above, where they have just been finished, they are filled, twelve at a time, with the oil made a few miles away. The filling apparatus is admirable. As the newmade cans come down the chute they are distributed, twelve in a row, along one side of a turn-table. The turn-table is revolved, and the cans come directly under twelve measures, each holding five gallons of oil—a turn of a valve, and the cans are full. The table is turned a quarter, and while twelve more cans are filled and twelve fresh ones are distributed, four men with soldering cappers put the caps on the first set. Another quarter turn, and men stand ready to take the cans from the filler and while they do this, twelve more are having caps put on, twelve are filling, and twelve are coming to their place from the chute. The cans are placed at once in wooden boxes standing ready, and, after a twenty-four-hour wait for discovering leaks, are nailed up and carted to a nearby door. This door opens on the river, and there at anchor by the side of the factory is a vessel chartered for South America or China or where not—waiting to receive the cans which a little more than twenty-four hours before were tin sheets lying on flatboxes. It is a marvellous example of economy, not only in materials, but in time and in footsteps.[6]

## Market Competition Protects the Public

Socialist historian Gabriel Kolko, who argues in *The Triumph of Conservatism* that the forces of competition in the free market of the late 1800s were too potent to allow Standard to cheat the public, stresses that "Standard treated the consumer with deference. Crude and refined oil prices for consumers declined during the period Standard exercised greatest control of the industry . . ."[7]

Standard's service to the consumer in the form of lower prices is well-documented. To quote from Professor Armentano again:

Between 1870 and 1885 the price of refined kerosene dropped from 26 cents to 8 cents per gallon. In the same period, the Standard Oil Company reduced the [refining] costs per gallon from almost 3 cents in 1870 to .452 cents in 1885. Clearly, the firm was relatively efficient, and its efficiency was being translated to the consumer in the form of lower prices for a much improved product, and to the firm in the form of additional profits.[8]

That story continued for the remainder of the century, with the price of kerosene to the consumer falling to 5.91 cents per gallon in 1897. Armentano concludes from the record that "at the very pinnacle of Standard's industry 'control,' *the costs and the prices for refined oil reached their lowest levels in the history of the petroleum industry.*"[9]

John D. Rockefeller's success, then, was a consequence of his superior performance. He derived his impressive market share not from government favors but rather from aggressive courting of the consumer. Standard Oil is one of history's classic efficiency monopolies.

But what about the many serious charges leveled against Standard? Predatory price cutting? Buying out competitors? Conspiracy? Railroad rebates? Charging any price it wanted? Greed? Each of these can be viewed as an assault not just on Standard Oil but on the free market in general. They can and must be answered.

## Predatory price cutting

Predatory price cutting is "the practice of deliberately underselling rivals in certain markets to drive them out of business, and then raising prices to exploit a market devoid of competition."[10]

Professor John S. McGee, writing in the *Journal of Law and Economics* for October 1958, stripped this charge of any intellectual substance. Describing it as "logically deficient," he concluded, "I can find little or no evidence to support it."[11]

In his extraordinary article, McGee scrutinized the testimony of Rockefeller's competitors who claimed to have been victims of predatory price cutting. He found their claims to be shallow and misdirected. McGee pointed out that some of these very people later opened new refineries and successfully challenged Standard again.

Beyond the actual record, economic theory also argues against a winning policy of predatory price cutting in a free market for the following reasons:

1. *Price is only one aspect of competition.* Firms compete in a variety of ways: service, location, packaging, marketing, even courtesy. For price alone to draw customers away from the competition, the predator would have to cut substantially—enough to outweigh all the other competitive pressures the others can throw at him. That means suffering losses on every unit sold. If the predator has a war-chest of "monopoly profits" to draw upon in such a battle, then the predatory price cutting theorist must explain how he was able to achieve such ability in the absence of this practice in the first place!

2. *The large firm stands to lose the most.* By definition, the large firm is already selling the most units. As a predator, it must actually step up its production if it is to have any effect on competitors. As Professor McGee observed, "To lure customers away from somebody, he (the predator) must be prepared to serve

them himself. The monopolizer thus finds himself in the position of selling more—and therefore losing more—than his competitors."[12]

3. *Consumers will increase their purchases at the "bargain prices."* This factor causes the predator to step up production even further. It also puts off the day when he can "cash in" on his hoped-for victory because consumers will be in a position to refrain from purchasing at higher prices, consuming their stockpiles instead.

4. *The length of the battle is always uncertain.* The predator does not know how long he must suffer losses before his competitors quit. It may take weeks, months, or even years. Meanwhile, consumers are "cleaning up" at his expense.

5. *Any "beaten" firms may reopen.* Competitors may scale down production or close only temporarily as they "wait out the storm." When the predator raises prices, they enter the market again. Conceivably, a "beaten" firm might be bought up by someone for a "song," and then, under fresh management and with relatively low capital costs, face the predator with an actual competitive cost advantage.

6. *High prices encourage newcomers.* Even if the predator drives everyone else from the market, raising prices will attract competition from people heretofore not even in the industry. The higher the prices go, the more powerful that attraction.

7. *The predator would lose the favor of consumers.* Predatory price cutting is simply not good public relations. Once known, it would swiftly erode the public's faith and good will. It might even evoke consumer boycotts and a backlash of sympathy for the firm's competitors.

In summary, let me quote Professor McGee once again:

> Judging from the Record, Standard Oil did not use predatory price discrimination to drive out competing refiners, nor did its pricing practice have that effect. Whereas there may be a very few cases in which retail kerosene peddlers or dealers went out of business after or during price cutting, there is no real proof that Standard's pricing policies were responsible. I am convinced that Standard did not systematically, if ever, use local price cutting in retailing, or anywhere else, to reduce competition. To do so would have been foolish; and, whatever else has been said about them, the old Standard organization was seldom criticized for making less money when it could readily have made more.[13]

## Buying out competitors

The intent of this practice, the critics say, was to stifle competitors by absorbing them.

First, it must be said that Standard had no legal power to coerce a competitor into selling. For a purchase to occur, Rockefeller had to pay the *market* price for an oil refinery. And evidence abounds that he often hired the very people whose operations he purchased. "Victimized ex-rivals," wrote McGee, "might be expected to make poor employees and dissident or unwilling shareholders."[14]

Kolko writes that "Standard attained its control of the refinery business primarily by mergers, not price wars, and most refinery owners were anxious to sell out to it. Some of these refinery owners later reopened new plants after selling to Standard."[15]

Buying out competitors can be a wise move if achieving economy of scale is the intent. Buying out competitors merely to eliminate them from the market can be a futile, expensive, and never-ending policy. It appears that Rockefeller's mergers were designed with the first motive in mind.

Even so, other people found it profitable to go into the business of building refineries and selling to Standard. David P. Reighard managed to build and sell three successive refineries to Rockefeller, all on excellent terms.

A firm which adopts a policy of absorbing others solely to stifle competition embarks upon the impossible adventure of putting out the recurring and unpredictable prairie fires of competition.

## *Conspiracy to fix prices*

This accusation holds that Standard secured secret agreements with competitors to carve up markets and fix prices at higher-than-market levels.

I will not contend here that Rockefeller never attempted this policy. His experiment with the South Improvement Company in 1872 provides at least some evidence that he did. I do argue, however, that all such attempts were failures from the start and no harm to the consumer occurred.

Standard's price performance, cited extensively above, supports my argument. Prices fell steadily on an improving product. Some conspiracy!

From the perspective of economic theory, collusion to raise and/or fix prices is a practice doomed to failure in a free market for these reasons:

1. *Internal pressures.* Conspiring firms must resolve the dilemma of production. To exact a higher price than the market currently permits, production must be curtailed. Otherwise, in the face of a fall in demand, the firms will be stuck with a quantity of unsold goods. Who will cut their production and by how much? Will the conspirators accept an equal reduction for all when it is likely that each faces a unique constellation of cost and distribution

advantages and disadvantages?

Assuming a formula for restricting production is agreed upon, it then becomes highly profitable for any member of the cartel to quietly cheat on the agreement. By offering secret rebates or discounts or other "deals" to his competitors' customers, any conspirator can undercut the cartel price, earn an increasing share of the market and make a lot of money. When the others get wind of this, they must quickly break the agreement or lose their market shares to the "cheater." The very reason for the conspiracy in the first place—higher profits—proves to be its undoing!

2. *External pressures.* This comes from competitors who are not parties to the secret agreement. They feel under no obligation to abide by the cartel price and actually use their somewhat lower price as a selling point to customers. The higher the cartel price, the more this external competition pays. The conspiracy must either convince all outsiders to join the cartel (making it increasingly likely that somebody will cheat) or else dissolve the cartel to meet the competition.

I would once again call the reader's attention to Kolko's *The Triumph of Conservatism,* which documents the tendency for collusive agreements to break apart, sometimes even before the ink is dry.

## *Railroad rebates*

John D. Rockefeller received substantial rebates from railroads who hauled his oil, a factor which critics claim gave him an unfair advantage over other refiners.

The fact is that most all refiners received rebates from railroads. This practice was simply evidence of stiff competition among the roads for the business of hauling refined oil products. Standard got the biggest rebates because Rockefeller was a shrewd bargainer and because he offered the railroads large volume on a regular basis.

This charge is even less credible when one considers that Rockefeller increasingly relied on his own pipelines, not railroads, to transport his oil.

## *The power to charge any price wanted*

According to the notion that Standard's size gave it the power to charge any price it wanted, bigness per se immunizes the firm from competition and consumer sovereignty.

As an "efficiency monopoly," Standard could not coercively prevent others from competing with it. And others did, so much so that the company's share of the market declined dramatically after 1899. As the economy shifted from kerosene to electricity, from the horse to the automobile, and from oil production in the East to production in the Gulf States, Rockefeller found himself losing ground to younger, more aggressive men.

Neither did Standard have the power to compel people to buy its products. It had to rely on its own excellence to attract and keep customers.

In a totally free market, the following factors insure that no firm, regardless of size, can charge and get "any price it wants":

1. *Free entry.* Potential competition is encouraged by any firm's abuse of the consumer. In describing entry into the oil business, Rockefeller once remarked that "all sorts of people . . . the butcher, the baker, and the candlestick maker began to refine oil."[16]

2. *Foreign competition.* As long as government doesn't hamper international trade, this is always a potent force.

3. *Competition of substitutes.* People are often able to substitute a product different from yet similar to the monopolist's.

4. *Competition of all goods for the consumer's dollar.* Every businessman is in competition with every other businessman to get consumers to spend their limited dollars on him.

5. *Elasticity of demand.* At higher prices, people will simply buy less.

It makes sense to view competition in a free market not as a static phenomenon, but as a dynamic, never-ending, leap-frog process by which the leader today can be the follower tomorrow.

## *Rockefeller was greedy*

The charge that John D. Rockefeller was a "greedy" man is the most meaningless of all the attacks on him but nonetheless echoes constantly in the history books.

If Rockefeller wanted to make a lot of money (and there is no doubting he did), he certainly discovered the free market solution to his problem: produce and sell something that consumers will buy and buy again. One of the great attributes of the free market is that it channels greed into constructive directions. One cannot accumulate wealth without offering something in exchange!

At this point the reader might rightly wonder about the dissolution of the Standard Oil Trust in 1911. Didn't the Supreme Court find Standard guilty of successfully employing anti-competitive practices?

Interestingly, a careful reading of the decision reveals that no attempt was made by the Court to examine

Standard's conduct or performance. The justices did not sift through the conflicting evidence concerning any of the government's allegations against the company. No specific finding of guilt was made with regard to those charges. Although the record clearly indicates that "prices fell, costs fell, outputs expanded, product quality improved, and hundreds of firms at one time or another produced and sold refined petroleum products in competition with Standard Oil,"[17] the Supreme Court ruled against the company. The justices argued simply that the competition between some of the divisions of Standard Oil was less than the competition that existed between them when they were separate companies before merging with Standard.

In 1915, Charles W. Eliot, president of Harvard, observed: "The organization of the great business of taking petroleum out of the earth, piping the oil over great distances, distilling and refining it, and distributing it in tank steamers, tank wagons, and cans all over the earth, was an American invention."[18] Let the facts record that the great Standard Oil Company, more than any other firm, and John D. Rockefeller, more than any other man, were responsible for this amazing development.

## —FOOTNOTES—

[1]Thomas A. Bailey, *The American Pageant: A History of the Republic*, 2 vols., 8th ed. (Boston: D. C. Heath and Company, 1966), 2:532.

[2]Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States*, 2nd ed. (Boston: Houghton Mifflin Company, 1965), p. 367.

[3]D. T. Armentano, *The Myths of Antitrust: Economic Theory and Legal Cases* (New Rochelle, N.Y.: Arlington House, 1972), p. 64.

[4]Thomas G. Manning, E. David Cronon, and Howard R. Lamar, *The Standard Oil Company: The Rise of a National Monopoly*, part 3: *Government and the American Economy: 1870 to the Present*, revised (New York: Henry Holt and Company, 1960), p. 19.

[5]Armentano, *Myths of Antitrust*, p. 67.

[6]Ida M. Tarbell, *The History of the Standard Oil Company*, 2 vols. in 1 (Gloucester, Mass.: Peter Smith, 1950), p. 240-241.

[7]Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (New York: The Macmillan Company, 1963; reprint ed., Chicago: Quadrangle Books, 1967), p. 39.

[8]Armentano, *Myths of Antitrust*, p. 70.

[9]*Ibid.*, p. 77.

[10]*Ibid.*, p. 73.

[11]John S. McGee, "Predatory Price Cutting: The Standard Oil (N.J.) Case," *Journal of Law and Economics*, I (October, 1958), p. 138.

[12]*Ibid.*, p. 140.

[13]*Ibid.*, p. 168.

[14]*Ibid.*, p. 145.

[15]Kolko, *Triumph of Conservatism*, p. 40.

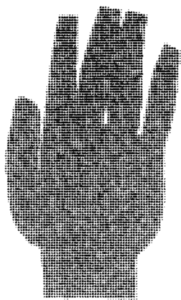
[16]John A. Garraty, *The American Nation*, vol. 2: *A History of the United States Since 1865*, 3rd ed. (New York: Harper and Row, 1975), p. 499.

[17]Armentano, *Myths of Antitrust*, p. 83.

[18]Fite and Reese, *An Economic History*, p. 366.

**William H. Peterson**

# The Invisible Hand



# 1980

PITIFUL helpless giant.

Is that what America is becoming, wracked by inflation, energy constrictions and an unfolding recession? If so, it's all, I submit, for want of understanding the ramifications of one little word: profits.

The immediate problem may have started last March when a 26 per cent advance in fourth-quarter 1978 corporate profits (over fourth-quarter 1977 profits) was greeted by Administration spokesmen as a "catastrophe," as putting "business on trial," as "unnecessarily high."

Then, later in the year, the assault turned on "already enormous" oil profits. In a television address to the American people, President Carter demanded a "windfall profits tax" to curb those who would "cheat the public and . . . damage the nation" via "unearned billions of dollars."

Catastrophe? Unearned? Cheat? Damage? What goes on here?

This is not the place to engage in extensive statistical rebuttal. Enough to say that inflation causes plant and equipment to be underdepreciated and inventories undervalued, due to IRS rules and regulations. Profits become overstated, exaggerated. Remove the resulting phantom profits, and corporate profits are indeed what they have been for a long time, a "catastrophe"—a catastrophic low: for example, a 5.5 per cent return on assets in 1978 against 7.6 per cent 10 years prior. So talk nowadays of "record profits" is really an inflationary mirage, a national delusion.

One result of this prolonged profit

**Dr. Peterson is the Scott L. Probasco, Jr., Professor of Free Enterprise and director of the Center for Economic Education at the University of Tennessee at Chattanooga.**

famine has been a drop of the current Dow Jones Industrial Average by more than half in real terms since hitting 1,000 in February 1966. Another result has been prolonged weakening in the rates of personal saving, business investment and productivity growth—rates now about the lowest in the Western industrial world, even though they represent pathways to job creation and rising living standards, and offsets to inflationary pressures.

Enough to say, too, that oil profits, when measured as a return on sales or equity, were less than industrial profits as a whole in 1978, that, as President Carter himself concedes, oil price controls—read oil *profit* controls—have failed, that they have caused domestic oil production to lag almost every year since they were first imposed in 1971.

**Profit Controls**

Why, then, the masochism in denying ourselves desperately-needed domestic oil supplies via a tax on "windfall profits"? After all, it is profits, or rather, the lure of profits that induces production, not prices. The bigger the lure, as a rather strict rule, the greater the production. This logic is now officially recognized for heavy oil—why not for *all* oil?

And in view of the overall anti-"big profits" campaign (supermarket operators and meatpackers have also been singled out), with its veiled implication that perhaps profit itself is somehow unethical, the larger question is: Just what is profit and how, if at all, is it earned?

Critics from antiquity on have equated profit with greed and selfishness. In a typical vein, Cicero wrote in his *De Officiis:* "Those who buy to sell again as soon as they can are to be accounted as vulgar; for they can make no profit except by a certain amount of falsehood, and nothing is meaner than falsehood." In 1704 Bernard de Mandeville saw profit as vile in origin but positive in effect in his *Fable of the Bees: Private Vices, Public Benefits.* Mandeville's idea was that not only wealth but also the arts and sciences—indeed all civilization—is the result of not the nobility of man but rather his baser nature. In other words, Mandeville labeled as vices normal longings for the good things of life—luxury, comfort, well-being and all the other pleasures stemming from man's natural wants. And more recently, to cite another example, in the introduction to the Modern Library 1937 edition of Adam Smith's classic *Wealth of Nations* (1776), Max Lerner called Smith "an unconscious mercenary in the service of the rising capitalist class," and held that he gave "a new dignity to greed and a new sanctification to the predatory impulses."

In truth, profit does extend beyond business and finance. It is, frankly, gain, advantage, self-interest; and it applies to every man, woman and child—even to the altruist, who seeks to profit others. It can parade under other colors—wages, salaries, fees, interest, tuition, rent and so on. It can be seen in the winning of nonfinancial rewards—say, the captaincy of a football team, a prize in a bridge tournament, a jury's verdict of "not guilty." (Conversely, not winning these things involves losses in one degree or another.)

### A Natural Motive

The profit-and-loss idea can be readily inferred from the writings of philosophers from Aristotle to Santayana, of psychologists from Freud to Skinner. It can be seen in all human motivation, in every human action, said Austrian economist Ludwig von Mises, holding that profit and loss are ultimately psychic phenomena.

Broadly speaking, I think that what every individual really wants is, in the word of early 20th century labor leader Samuel Gompers, "more"—more as the individual sees it. More happiness as a rule. And more is but another name for profit. Again, I think that given the primordial economic law of scarcity, of the universal urgency to allocate limited resources, including time, man *must* seek the most for the least, to maximize gain, to minimize loss. Profit-seeking is part of human nature. Nobody is exempt.

Adam Smith saw the immensity and pervasiveness of human incentive, of self-interest, of the profit motive in human affairs when he wrote in *The Wealth of Nations:* "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."

This is not to glorify profit. Like sex, the profit drive is subject to abuse. When profit overrides individual rights as in fraud or force, obviously the social fabric is torn. The mugger in Central Park, for example, is obeying his self-interest but to the detriment of his fellow man.

But in any free exchange both parties profit or expect to profit, else the exchange would not take place. Advantage is two-way. Gain is mutual. Moreover, it invariably involves service to the other or others, and it is immediately reciprocated. It is, in this sense, the Golden Rule in action. The exchangers—buyers and sellers—are saying to each other, in the words of Adam Smith: "Give me that which I want, and you shall have this which you want."

The profit motive is also a great civilizer. It promotes not only civility and individual responsibility but division of labor and specialization, social cooperation and still more exchanges. Hence productivity improvement emerges as does in time an economic surplus beyond mere provisioning of necessities. Hence the surplus permits the flowering of charity, religion, music, painting, literature, education, science. Hence—if I may accelerate the thought—Western Civilization.

So Montaigne and Marx had it all wrong when they argued one man's profit involves another man's loss, that production for profit is at variance with production for use.

### The Market at Work

The fact is that the prospect of profit—along with its magnitude—motivates and activates producers, steering production into those uses most demanded by consumers, i.e., into products broadly considered to be the most useful. This is supply and demand in action, the market place at work. As University of Chicago economist Yale Brozen and others have noted, production for profit *is* production for use.

Indeed, the genius of the free enterprise system is that it can take the profit motive—this innate, inescapable and potentially destructive human trait of self-interest—and peacefully, harmoniously and, above all, voluntarily convert it into constructive channels of human effort, cooperation, service and advancement. Are profits, then, earned? Most assuredly, yes.

In this light the concept of a "windfall" profits tax on oil becomes, however inadvertently, a great deception—a tax ultimately borne not by the companies but by the American consumer, a tax that will hamper the discovery and development of new domestic oil supplies. Windfall? Again, it is the U.S. Government itself that has repressed oil prices, beginning in 1971.

To be sure, repressing and decontrolling prices and then taxing "windfall" gains are done under the name of the public interest. But self-interest in a market system usually advances the public interest more than those who profess to serve the public interest (apart from their own inevitable personal interest). As Adam Smith observed, the individual "neither intends to promote the public interest nor knows how much he is promoting it. . . . By . . . directing (his) industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention."

Energy availability. Inflation alleviation. Economic growth. Profit motive. All are of one piece.

**Leslie Snyder**

# Justice and Freedom

The administration of a republic is supposed to be directed by certain fundamental principles of right and justice, from which there cannot, because there ought not to, be any deviation; and whenever any deviation appears, there is a kind of stepping out of the republican principle, and an approach toward the despotic one. —**Thomas Paine**

* * *

JUSTICE is the only foundation upon which a society of free and independent people can exist. Justice is a concrete, recognizable, and objective principle. It is not a matter of opinion.

In our day and age the word justice is rarely used in political and economic discussions. The entire reason for the existence of communities, laws, governments and court systems has been forgotten. But if life and property are to be protected and secured, which is the purpose of society, then justice *must* be the rule. To quote Paine again, "A republic, properly understood, is a sovereignty of justice."

According to a 1931 Webster's dictionary, justice is the "quality of being just; impartiality." Just is "conforming to right; normal; equitable." A 1961 Webster's dictionary says justice is "The principle of rectitude and just dealings of men with each other—one of the cardinal virtues. Administration of law . . ." A 1975 edition of a Grolier Webster dictionary says justice is "Equitableness; what is rightly due; lawfulness. . . ."

Since 1931 a new meaning of the word justice has been added, that of lawfulness, which is not only erroneous, but deceitful and misleading. Justice is not based on law;

rather, law ought to be based on justice. It is only common sense, for men lived and worked together before laws were formed. Generally laws are passed to formalize what has preceded under common practice, what has stood the test of time as being just and equitable. Laws are common practice put down in black and white for all to see and know.

Leslie Snyder has specialized in finance and economics, business and investments. The growing pressure of new laws has aroused her concern for the principled and peaceful return to justice.

This article is excerpted, by permission, from her latest book, *Justice Or Revolution,* published in 1979 and available from:

Books In Focus, Inc.
Suite 31B
160 East 38th Street
New York, New York 10016
194 pages ▪ $10.95

The ancient philosophers said that justice is speaking the truth and paying your debts, giving to each man what is proper to him, doing good to friends and evil to enemies. Therefore, there must be something more basic, more fundamental than laws on which to found justice. In fact, the French jurist Charles de Montesquieu (1689-1755) ably contended that "before laws were made, there were relations of possible justice. To say that there is nothing just or unjust but what is commanded or forbidden by positive laws, is the same as saying that before the describing of a circle all the radii were not equal."

### Minding One's Own Business

The Greek philosophers had the simplest definition of justice. To Plato (c. 428-348 B.C.), in *The Republic,* Book IV, justice is simply "doing one's own business, and not being a busybody. . . . A man may neither take what is another's, nor be deprived of what is his own. . . . This is the ultimate cause and condition of the existence of all" other virtues in the State, "and while remaining in them is also their preservative."

In Book XII of Plato's *Laws,* the conclusion is drawn that "by the relaxation of that justice which is the uniting principle of all constitutions, every power in the state is rent asunder from every other." In other words, without justice the threads of society unravel and society disintegrates into barbarism.

Aristotle (384-322 B.C.) in *Nicomachean Ethics,* Book V, gives greater perception to what justice is. It "is found among men who share their life with a view to self-sufficiency, men who are free. . . . Therefore *justice is essentially something human."* (Emphasis added.) In other words, free men may choose to be just or unjust. Justice, as an ethical term, is voluntary; " . . . a man acts unjustly or justly whenever he does such acts voluntarily." When wrong is done and done voluntarily, it then becomes an act of injustice. In short, "All virtue is summed up in dealing justly," said Aristotle.

More concretely, Aristotle claims, in *Rhetoric,* Book I, "Justice is the virtue through which everybody enjoys his own possessions in accordance with the law; its opposite is injustice, through which men enjoy the possessions of others in defiance of the law." There is the problem of using the law to legalize theft and to redistribute the property of one group to another group, but for the time being, we must assume Aristotle means the use of laws that are rightful and just. For when he says "justice has been acknowledged by us to be a social virtue, and it implies all others," he has laid the foundation of a just society.

Furthermore, Aristotle maintains that "legal justice is the discrimination of the just and the unjust." And, "Of political justice part is natural, part legal—natural, that which everywhere has the same force and does not exist by people's thinking this or that." Natural justice must precede law and form the basis of law thereon.

In the sixteenth century Michel de Montaigne (1533-1592), in his *The Essays,* eloquently said: "The justice which in itself is natural and universal, is otherwise and more nobly ordered, than that other justice, which is special, national, and constrained to the ends of government." He continues, "There cannot a worse state of things be imagined, than where wickedness comes to be legitimate, and assumes with the magistrate's permission, the cloak of virtue. . . . The extremest sort of injustice, according to Plato, is where that which is unjust, should be reputed for just."

### Hobbes on Natural Justice

In Thomas Hobbes' (1588-1679) *Leviathan,* further ground is laid on which to base natural justice. The names just and unjust, says Hobbes, when they are attributed to men's actions, signify conformity or nonconformity to reason. Therefore, "Justice . . . is a rule of reason by which we are forbidden to do anything destructive to our life, and consequently a law of nature."

Then Hobbes leads beautifully into the virtue of just actions: "That which gives to human actions the relish of justice is a certain nobleness or gallantness of courage, rarely found, by which a man scorns to be beholding for the contentment of his life to fraud, or breach of promise. This justice of the manners is that which is meant where justice is called a *virtue*; and injustice, a *vice*."

Earlier it was established that justice is the social virtue on which a just society is constructed. Hobbes adds to this not only by tying virtues to the laws of nature, but to moral philosophy as well. "Now the science of virtue and vice is moral philosophy; and therefore the true doctrine of the laws of nature is the true moral philosophy. . . . For moral philosophy is nothing else but the science of what is good and evil in the conversation and society of mankind." Thus, Hobbes establishes the fact that a *just society is a moral society.*

Saint Augustine (354-430) in *The City of God,* Book XIX, declares "Where, therefore, there is no true justice there can be no right. For that which is done right is justly done, and what is unjustly done cannot be done by right." Hence, justice precedes "rights."

Joseph Joubert eloquently phrased justice as truth in action.

Since practicing the virtue of justice is voluntary, man ought to have the courage to stand up and fight for what is right and against what is wrong. Cato the Younger said it this way: " . . . a man has it in his power to be just, if he have but the will to be so, and therefore injustice is thought the most dishonorable because it is least excusable."

Another way to consider what justice is, is to compare it with injustice. For example, in *Utilitarianism,* John Stuart Mill (1806-1873) states that " . . . it is just to respect, unjust to violate, the *legal rights* of any one." Second, " . . . injustice consists in taking or withholding from any person that to which he has a *moral right.*" Third, "It is universally considered just that each person should obtain that (whether good or evil) which he *deserves.*" Fourth, "It is confessedly unjust to break faith with any one: to violate an engagement, either expressed or implied. . . ." Fifth, "It is, by universal admission, inconsistent with justice to be partial."

## A Moral Issue

Mill, too, sees justice as a moral issue. He concludes: "Whether the injustice consists in depriving a person of a possession, or in breaking faith with him, or in treating him worse than he deserves, or worse than other people who have no greater claims, in each case the supposition implies two things—a wrong done, and some assignable person who is wronged. Injustice may also be done by treating a person better than others; but the wrong in this case is to his competitors, who are also assignable persons. . . . Justice implies something which it is not only right to do, and wrong not to do, but which some individual person can claim from us as his moral right."

Thomas Paine's *Dissertations*

speak about justice where the public good is concerned. He maintains that, "The foundation-principle of public good is justice, and wherever justice is impartially administered, the public good is promoted; for as it is to the good of every man that no injustice be done to him, so likewise it is to his good that the principle which secures him should not be violated in the person of another, because such a violation weakens *his* security, and leaves to chance what ought to be to him a rock to stand on."

The great American constitutional lawyer of the nineteenth century, Lysander Spooner, wrote a pamphlet entitled: *Natural Law, or The Science of Justice,* which succinctly summarizes what justice is:

The science of mine and thine—the science of justice—is the science of all human rights; of all a man's rights of person and property; of all his rights to life, liberty, and the pursuit of happiness.

It is the science which alone can tell any man what he can, and cannot, do; what he can, and cannot, have; what he can, and cannot, say, without infringing the rights of any other person.

It is the science of peace; and the only science of peace; since it is the science which alone can tell us on what conditions mankind can live in peace, or ought to live in peace, with each other.

These conditions are simply these: viz., first, that each man shall do, towards every other, all that justice requires him to do; as, for example, that he shall pay his debts, that he shall return borrowed or stolen property to its owner, and that he shall make reparation for any injury he may have done to the person or property of another.

The second condition is, that each man shall abstain from doing to another, anything which justice forbids him to do; as, for example, that he shall abstain from committing theft, robbery, arson, murder, or any other crime against the person or property of another.

So long as these conditions are fulfilled men are at peace, and ought to remain at peace, with each other. But when either of these conditions is violated, men are at war. And they must necessarily remain at war until justice is re-established.

Through all time, so far as history informs us, wherever mankind have attempted to live in peace with each other, both the natural instincts, and the collective wisdom of the human race, have acknowledged and prescribed, as an indispensable condition, obedience to this one only universal obligation: viz., that each should live honestly towards every other.

The ancient maxim makes the sum of man's legal duty to his fellow men to be simply this: "*To live honestly, to hurt no one, to give to every one his due . . .*"

Never has such a complex subject as justice been treated so clearly and simply. To summarize justice thus far: Justice means that each must be accountable for his own actions, entitled to the reward of his labor, and responsible for the consequences of his wrong doings.

The love of justice should be instilled in every man, woman and child—all should wish to see justice done. For without justice the rule of men (dictatorship), not of law, assumes power. Without justice, society disintegrates into barbarism, where courts of law are administered by favor and pull instead of objective law, and without objective laws, the individual is at the mercy of the ruling power and its agents. The ancient atrocities return, such as no trial by jury, confiscatory taxes on life and property, the purchasing of judges, legislators, and sheriffs; all previous forms of the prior administration of justice become part of the current machinery which administers not justice, but injustice or tyranny.

In short, all that is good rests on justice. Where there is no justice, there is no morality—no right or wrong—anything goes and usually does. Justice is a social virtue to be practiced by individuals. Justice demands that the individual reward or recognize good and condemn evil. To practice justice one should know a man for what he is and treat him accordingly, whether he be honest, dishonest, friend or thief. The good should be rewarded, the bad punished.

### The Highest Goal

Society cannot place before it a higher or nobler goal than the administration of justice. Thus, here is a bit of advice from *Conversations with Goethe,* March 22, 1825: "A great deal may be done by severity, more by love, but most by clear discernment and impartial justice."

Once the meaning of justice has been established, next comes the understanding of freedom and liberty, which are crucial because only under freedom can the individual achieve his highest potential and pursue his happiness.

To speak of liberty and freedom is to speak first of natural laws or the right of nature. Hobbes lays an excellent foundation of natural laws or rights. He affirms that the right of nature is the liberty each man has to use his own power for the preservation of his own life, and his own judgment and reason are the best means for achieving it.

The first law of nature, according to Jean Jacques Rousseau (1712-1778), results from man's nature. "His first law is to provide for his own preservation, his first cares are those which he owes to himself; and, as soon as he reaches years of discretion, he is the sole judge of the proper means of preserving himself. . . ."

Therefore, if man's first obligation is to provide for his own life, he must live under the proper conditions in which to sustain his life, namely, liberty. By liberty is understood the absence of external impediments, the absence of opposition.

**Hayek on Liberty**

In *The Constitution of Liberty,* Nobel-prize winner Friedrich A. Hayek points out that liberty is a negative concept like peace. "It becomes positive only through what we make of it. It does not assure us of any particular opportunities, but leaves it to us to decide what use we shall make of the circumstances in which we find ourselves. . . . " He continues, "Liberty not only means that the individual has both the opportunity and the burden of choice; it also means that he must bear the consequences of his actions and will receive praise or blame for them. Liberty and responsibility are *inseparable.*" (Emphasis added.)

To expound further, Mill explains that one cannot take away another's freedom no matter how sincerely one tries to protect another. Only by our own hands can any positive and lasting improvement in our lives be worked out. And through "the influence of these two principles all free communities have both been more exempt from social injustice and crime, and have attained more brilliant prosperity, than any others. . . ."

Further, ". . . any restriction on liberty reduces the number of things tried and so reduces the rate of progress. In such a society freedom of action is granted to the individual, not because it gives him greater satisfaction but because if allowed to go his own way he will on the average serve the rest of us better than any orders we know how to give."

In short, liberty is the only object which benefits all alike and should provoke no sincere opposition. Liberty "is not a means to a higher political end. It is itself the highest political end," says Lord Acton. It is required for security in the pursuit of the highest objects of private life and civil society.

**Morality Requires Freedom**

If liberty is to live upon one's own terms and slavery is to live at the mercy of another's, then it follows that to live under one's own terms means the individual has a choice of actions. He can be virtuous or not; he can be moral. Therefore, morality requires freedom. Thus, only free men can be just men!

In his *The Road to Serfdom,* Hayek ties liberty to morality. Since morals are of necessity a phenomenon of individual conduct, to be moral one must be free to make choices. Where man is forced to act by coercion, the ability to choose has been pre-empted. Only under liberty and freedom can man be moral. As a result, only "where we ourselves are responsible for our own interests . . . has our decision moral value. Freedom to order our own conduct in the sphere where material circumstances force a choice upon us, and responsibility for the arrangement of our own life according to our own conscience, is the air in which alone moral sense grows and in which moral values are daily recreated in the free decision of the individual. Responsibility, not to a superior, but to one's conscience, the awareness of a duty not exacted by compulsion . . . and to bear the consequences of one's own decision, are the very essence of any morals which deserve the name."

The facts have been established thus far that man must live under liberty to become as productive, as noble, and as just as he can, since liberty is the condition under which morality thrives. Also, only the individual knows what is best for himself. And finally, liberty does not provide opportunities, but leaves the individual free to choose those actions which he thinks will best suit him and to bear the consequences of those actions.

### The Price of Freedom

There is one more thing to consider about freedom and liberty—the price. Tocqueville remarked, "Some abandon freedom thinking it dangerous, others thinking it impossible." But there is a third reason. Some abandon freedom thinking it too expensive. Freedom is not free. "Those who expect to reap the blessings of freedom, must, like men, undergo the fatigues of supporting it," noted Paine.

"Freedom is the most exacting form of civil government—it is, in fact, the most demanding state of all for man. That is because freedom demands—depends upon—self-discipline from both the governed and the governing. The foundation of freedom is self-government and the foundation of self-government is self-control," explains author Rus Walton, of *One Nation Under God.* Freedom requires more, however. It requires a strong and vigilant defense. "The greater the threat of evil, the stronger that defense must be. That which is right does not survive unattended; it, too, must have its defenders. . . . "

Is liberty worth the effort? According to Frederic Bastiat, all you have to do is look at the entire world to decide. That is, which "countries contain the most peaceful, the most moral, and the happiest people? Those people are found in the countries where the law least interferes with private affairs; where government is least felt; where the individual has the greatest scope, and free opinion the greatest influence; where administrative powers are fewest and simplest; where taxes are lightest and most nearly equal, and popular discontent the least excited and the least justifiable; where individuals and groups most actively assume their responsibilities, and, consequently, where the morals of . . . human beings are constantly improving; where trade, assemblies, and associations are the least restricted; . . . where mankind most nearly follow its own natural inclinations; . . . in short, the happiest, most moral, and most peaceful people are those who most nearly follow this principle: although mankind is not perfect, still, all hope rests upon the free and voluntary actions of persons within the limits of right; law or force is to be used for nothing except the administration of universal justice."

What this means to us today is that our society, so filled with government regulations and laws, has taken away many of our liberties. For example, we cannot go into some businesses without being licensed, taxed, and regulated. We are presumed guilty (of dishonesty) until proven innocent (which is impossible). Our reputations are continually under attack and, for the most part, stand for nothing. Honesty and integrity, once the backbone of our society, have been replaced by government regulations and promises. Under this system of injustice all of us are losing our liberties, wealth, and happiness.

What better way to summarize the spirit of liberty and freedom and justice than to quote Tocqueville, who said, "I should have loved freedom, I believe, at all times, but in the time in which we live I am ready to worship it."

**Justice vs. Charity**

IDEAS ON LIBERTY

JUSTICE is the execution of the law which treats all men equally. In its exercise the state has the monopoly of the use of force. . . . The state has the power of the sword to execute justice.

Some feel that this idea of justice is a cold, heartless concept. They want the state to produce social and economic justice as well. They want justice to include a more equal distribution of the goods of this world. They want charity and sympathy to be effected by the power of the law. In the process of broadening the meaning of justice to include these political activities, real justice is destroyed. The use of force to take from some to give to others is the very opposite of justice. Economic equality or economic redistribution cannot be effected by force apart from an unequal, and thus unjust, treatment of individual citizens. When this becomes the policy of the state, justice no longer prevails.

FRANCIS E. MAHAFFY, "Social Justice"

# Reflections on History

WHEN Jacob Burckhardt, the Swiss historian of art and culture, died in 1897, he left a series of classroom lecture notes that he considered unready for book publication. It was only as he was dying that he gave permission to his heirs to bring them out if they saw fit. The notes were originally published in Germany in 1905, but it was not until some forty years later, in the middle of a war against the very totalitarianism that Burckhardt had predicted, that the first English translation was made.

The original American title, as of 1943, was *Force and Freedom;* Reinhold Niebuhr and others seized upon the book at once for its astoundingly accurate prophecies about the coming of the Goliath State. The odd thing was that Burckhardt, no Hegelian, did not believe in historical determinism. His fluid conception of history could have done wonders to counteract the Marxism and neo-Marxism that have bemused so many of our intellectuals. But his influence has been limited, and his name has been pretty much forgotten.

Now, as part of a program that is seeing many neglected classics restored to contemporary use, the Liberty Fund of Indianapolis has republished *Force and Freedom* as *Reflections on History* (Liberty Classics, 7440 North Shadeland, Indianapolis, Indiana 46250, 354 pages, $9.00 cloth; $4.00 paper), with a beautifully comprehensive introduction by Gottfried Dietze. What immediately strikes the reader is that Burckhardt, a man of the nineteenth century, explains the 1980 headlines as no modern commentator has succeeded in doing. Take his discussion of Islam, for example. In the West, he says, state and church have not fused into "one oppressive whole." But in Islam the fusion took place. "The whole of culture," he wrote, "was dominated, shaped and colored by it. Islam has only one form of polity, of necessity despotic, the consummation of power, secular, priestly, and theocratic. . . . This aridity, this dreary uniformity of Islam, which is so terribly limited on the religious side, probably did more harm than good to culture, if only because it rendered the peoples affected by it quite incapable of going over to another culture."

If our editorialists had known about Burckhardt, they would not have been caught so short by the apparition of the Ayatollah Khomeini. And if our policy makers in Washington had absorbed some of Burckhardt's wisdom, they would never have been deluded into thinking that detente with a totalitarian power could ever come to anything.

### Consequences of Intervention: A Subtle Understanding

Burckhardt did not believe in historical "laws." But if nothing was fated, how could he have been such a good prophet? Only by a subtle understanding of the word "if." Despotism would result "if" the State were to be permitted to absorb all the activities of men. But such absorption leads to stagnation and decay. History, as Burckhardt observed, is filled with overturns and interruptions. Great men can make a difference, for good or for ill. One whole chapter in *Reflections on History* is given over to a discussion of luck. It was lucky that the Greeks conquered Persia and the Romans Carthage, unlucky that Athens was defeated by Sparta. It was unlucky that Caesar was murdered before he had time to consolidate the Roman Empire into "an adequate political form." In the eighth century it was lucky that Europe held Islam at bay. (Query: can we count on luck a second time around?)

Marx defined history as the history of class struggles. Burckhardt said "nonsense" to Marx and to Marx's master Hegel. In Burckhardt's estimation, history was a result of the interaction of State, religion, and culture, and could take protean forms. Sometimes culture (as determined by social power) dominated the scene, sometimes it was religion. There could be totalitarianisms that were atheistic; on the other hand, there could be theocracies as despotic as any secular tyranny.

### The Criminality of Rulers

Burckhardt regarded force as evil, but he had no illusions about its inevitable exercise. Great men were quite capable of great crimes in consolidating a state, and genius and madness often went together. A justification for the crimes of great men seemed to lie in the fact that by them "an end could be put to the crimes of countless others." "The greatest example," said Burckhardt, "is offered by the Roman Empire, inaugurated by the most frightful methods . . . and completed by the subjection of East and West in rivers of blood." The end result of Roman crimes was the "creation of a common world culture, which also made possible the spread of a world religion, both capable of being transmitted to the Teutonic barbarians of the Volkerwanderung as the future bond of a new Europe."

But even though good may have come from the evil of Roman methods of conquest, Burckhardt refused to condone violence. The results of violence could be overcome as men strove "to turn mere power into law and order." But not every destruction entails generation. Sometimes, so Burckhardt observed, "a people which has been too brutally handled will never recover." Asia, so it appeared to Burckhardt, has been broken by the two periods of Mongol rule.

## The Plague of Centralization

Burckhardt's ideal civilization was one in which culture and religion established unseen but effective boundaries which the State did not dare to pass. His own Switzerland was a case in point. As Gottfried Dietze points out in his introduction, Burckhardt was a product of the aristocratic Swiss city of Basel, which had somehow escaped the leveling and centralizing effects of the French Revolution and the Napoleonic conquests.

Burckhardt admired the Germany of Goethe, a land of small principalities and culture-loving courts. He considered Bismarck an evil genius, and regarded the Franco-Prussian War as the beginning of the end of everything he had admired in the Germany where he had studied under Ranke. Since Germany, under Bismarck, had taken politics as its principle, it would have, so Burckhardt said, to continue on that course. Dietze mentions a letter Burckhardt wrote to a friend during the Franco-Prussian War in which the prediction was made that the learned gentry of Germany would have a rude awakening when they saw the spiritual sterility that would come with Prussian centralization.

The Italy that Burckhardt loved as a student and historian of art was pre-Garibaldi and pre-Cavour. After all, the Renaissance took place in small independent principalities and cities, not in a land that made "unification" a virtue. Burckhardt stopped writing for publication when it became apparent that the centralizers were going to win everywhere. He had enjoyed writing about "beautiful things" in his *The Civilization of the Renaissance in Italy* (1860) and *The History of the Renaissance* (1867). But after the Franco-Prussian War he became, as Ernst Cassirer said, a "pathologist" of a civilization that he saw on the downgrade. It was because he felt he could no longer cheer his readers that he wanted his reflections on world history to remain unpublished. He wanted his gloomy prognostications to be limited to a restricted audience. Luckily for us, he relented at the last.