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Robert Higgs

WAGE-PRICE GUIDELINES:

Retreat and Defeat

WAGE and price controls in a market economy are, according to Shultz and Dam, like an organism: they pass inevitably, and quickly, through a "life cycle."[1] Perhaps a more instructive analogy is the military diversionary tactic that sends a platoon to mount a surprise attack on the flank of an advancing enemy division. This preposterous little counteroffensive may throw the enemy into momentary confusion, force him to divert men and equipment to other sectors, even compel him to withdraw temporarily from certain occupied territories. But none of this can last. Unless a genuinely powerful force is brought forward, the enemy will regroup and overrun the audacious platoon's position.

On October 24, 1978, President Carter ordered his platoon, the Council on Wage and Price Stability (COWPS), to attack the advancing wage and price structure of the American economy. Sure enough, a certain amount of market confusion, price distortion, and resource reallocation ensued. Of course, the President's diversionary tactic, the "voluntary" wage-price guidelines, did not halt what everyone was calling Public Enemy No. 1. In fact, inflation accelerated. After rising 9 percent in 1978 and 13 percent in 1979, the consumer price index (CPI) zoomed upward at an annual rate of 18 percent during the first quarter of 1980 before subsiding to somewhat lower double-digit rates. But while they had no effect on accelerating inflation, the guidelines did have other effects during their first year. They imposed substantial reporting costs on hundreds of large firms; disrupted several important collective bargaining negotiations, twice helping to bring about costly and disruptive strikes; induced distortions in the economy's structure of relative prices, with consequent artificial shortages of various goods

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and services and reductions in overall economic efficiency and consumer welfare; and exacerbated a variety of social conflicts.[2]

New Rules, National Accord, and Pay Committee

In the summer of 1979, the Council began to float its own proposals and to solicit suggestions for changes in the pay and price standards during the second program year, which began on October 1. The consensus was that the standards had to be loosened, as no one seemed willing to retain the original guidelines—holding pay increases to 7 percent and price increases to half a percentage point less than the annual rate during 1976–77—when inflation was running at 13 percent. Proposals varied widely. Unhappy with the uniform price deceleration rule, Barry Bosworth, the director of COWPS, wanted to set separate price targets for every industry in the economy. Negative reactions to this sweeping proposal soon led to its abandonment. The Council also proposed to require firms operating under the less restrictive profit-margin standard to absorb more of their uncontrollable cost increases.

By August it had become apparent that the new price standard would be little changed. Ultimately the administration settled on the requirement that firms hold the rate of increase in their average price during the first two program years to no more than during the base period 1976–77. This implied that firms which had complied with the price deceleration standard during the first program year could raise their prices about one percentage point more during the second program year. The Council also implemented a number of minor changes in the price-restraint rules, including its own proposal to reduce the amount of uncontrollable cost increases that firms could pass through to their customers.

The greatest difficulties surrounded proposals for new pay standards. Organized labor had opposed the first-year rules and even challenged them, unsuccessfully, in the courts. With the presidential election on the horizon, the administration longed to placate the union bosses, who openly opposed certain COWPS proposals, such as a two-year cumulative pay standard similar to the two-year price standard. Aware of their powerful bargaining position, the union leaders made strong counter-proposals. They wanted to set the wage standard equal to the rate of increase in the CPI plus the long-term rate of increase in manufacturing labor productivity, which would have blown the lid completely off the pay standard. They also proposed the establishment of a tripartite board to set, modify, and hear appeals from the wage standards on an *ad hoc* basis. As the start of the second program year approached, the union leaders continued to negotiate with Alfred Kahn, the chairman of COWPS, and G. William Miller, the newly appointed Secretary of the Treasury.

Good Politics

Leaders in the administration recognized that the proposed pay board had much to recommend it as a political ploy. Not only would it please the AFL-CIO, but it would also shift the blame for unpopular decisions—indeed for inflation itself—onto the board. Because the board would represent business, labor, and the "public," its decisions might appear more equitable and hence receive more compliance. The government would be left to play its political games outside the adversary context inherent where COWPS alone formulated and enforced the rules. While effectively abandoning its attempt to enforce stringent standards, the administration would not have to make an embarrassing disavowal of its previous commitment to a pay guideline program. In short, the pay board was Good Politics.

On September 28, 1979, President Carter and the AFL-CIO announced that they had entered into a National Accord. This "historic document" turned out to be a hodgepodge of highfalutin declarations and vague, mutually incompatible policy proposals. While asserting that "the war against inflation must be the top priority of government and of private individuals and institutions," it maintained that this war "should not mean acceptance of higher than otherwise levels of unemployment." The Accord said nothing specific about the guidelines program except to endorse its continuation with "greater public participation." All it really accomplished was expressed in its final paragraph, which declared that "the essence of this National Accord is involvement and cooperation. . . . It is our purpose to establish procedures for continuing consultations between American labor leadership and the Administration."[3] Besides the AFL-CIO, the Teamsters and the United Auto Workers endorsed the Accord. Thus did the Carter administration formally mend its relations with organized labor.

As part of the deal, the President announced the formation of a Price Advisory Committee and a Pay Advisory Committee. Everyone understood that the former, a group of six "public" representatives, was a pure formality. The latter, however, was a key concession to the union demands. It was chaired by John Dunlop, a Harvard economist who had headed President Nixon's Cost of Living Council and served as Secretary of Labor under President Ford.

Besides Dunlop, the Pay Committee included five other "public" members and six each from business and the unions.

The Pay Committee moved slowly. Although a second-year pay standard was due by October 1, the board took months to resolve its internal conflicts. Labor members wanted the board to invest itself with broad discretionary power to validate individual pay agreements on an *ad hoc* basis. Business members preferred to retain a single numerical pay standard applicable across the board. "Public" members feared that a compromise, which called for pay agreements to fall within a prescribed range, would effectively establish the upper limit of the range as the *de facto* standard and make a mockery of the compromise. In January the contentious members finally agreed to the compromise, but not until March 14, 1980, did President Carter publicly endorse the Committee's major proposal. This called for pay increases to be held within a range of 7.5 to 9.5 percent during the second program year. It also established that the value of cost-of-living adjustments (COLAs) would be computed, for purposes of determining compliance, on the assumption of a 7.5 percent rate of inflation. In practice, these standards were tantamount to no standards at all for labor unions with COLAs in their contracts.

The Guidelines Program as an All-around Nuisance

Not content with the hundreds of reports received by its small staff during the first program year, COWPS requested even more reports in 1980. Previously, only companies with annual sales over $250 million, about 1,200 firms, had to report. Early in 1980 the Council required that all firms with annual sales over $100 million, some 2,900 companies, file quarterly reports. Reporting costs had reached, in the words of a *Fortune* writer, "untold millions of dollars" during the first year; they must have reached much higher in 1980. A single firm, TRW, Inc., was said to be spending about $1 million per year, mainly for extra employees to handle the extra paper work. This compulsory reporting, required only of large firms, constituted an unlegislated new approach to antitrust policy, for it imposed a penalty on bigness per se.

The Council's capacity to back up its threats diminished in the second program year. During the first year it had forwarded the names of definite noncompliers to the Office of Federal Procurement, which was authorized by the President to withhold government contracts of $5 million or more. But no one had ever actually been denied a contract, not even the notoriously unrepentant noncomplier, Amerada Hess. The labor unions had strongly objected to the government's threat to withhold federal contracts—a threat that employers were using as a club in labor negotiations—and precisely this grievance had led them to challenge the guidelines in the courts. As part of the deal that produced the National Accord, the administration made a "gentleman's agreement" not to invoke this sanction against noncompliers. Still, the government publicly retained the option to violate its private gentleman's agreement. Therefore, the managers of many large firms with substantial government contracts, like Charles R. Allen at TRW, insisted that "the voluntary wage and price guidelines are mandatory for us."

Distortions and Inequities

So COWPS continued to threaten, negotiate, make deals, and build up its public enemies list of noncompliers. General Motors, held to have violated the pay standard, agreed to compensate by holding down the prices of its products. Ford, also in violation of the pay standard for its agreement with the United Auto Workers, came into compliance by agreeing to restrain further its pay increases for managerial employees. Chrysler, already foundering in a sea of troubles, was forced to renegotiate its contract with the UAW. Yet not everyone would make a deal. By mid-October, 1980, the Council had compiled an enemies list of 36 companies which had not complied with the guidelines and would not make amends acceptable to the President's men.

Wherever COWPS trod in the labor markets it left a mark of inequity. The major source of these distortions was the preferential treatment of workers with COLAs—the preference arising from the implausible assumption of 7.5 percent inflation used in evaluating the COLAs. A contract that compensated workers for two-thirds of the increase in the CPI, for example, could award them a 4.5 percent wage increase outright plus the COLA and still be considered in compliance (4.5 + [2/3][7.5] = 9.5 = the upper limit of the permissible range of pay increase). If inflation actually turned out to be a mere 12 percent, such a contract increased the workers' compensation by 12.5 percent (4.5 + [2/3][12] = 12.5). Thus, unionized workers with COLAs in their contracts fared much better than other workers. Not only was this directly discriminatory, but it also represented a clear encouragement of unionization. Several surveys confirmed that the guidelines distorted wage patterns in many labor markets.[4] Personnel managers blamed the pay standards for increased turnover and diminished morale among their employees.

COWPS also produced a variety of distortions in the product markets.

For example, the aluminum industry, troubled by guidelines-induced shortages during the first program year, fared no better in the second. An international price disequilibrium stimulated a surge of exports, exacerbating the domestic shortage, as the guidelines kept the U. S. price down while foreign prices soared. In February, 1980, American producers posted an ingot price of 66 cents per pound, while foreign buyers were paying over 90 cents. When COWPS abruptly changed its rules with respect to the timing of permissible price changes in March, 1980, producers had to roll back some previously announced price increases for fabricated products to offset their increased ingot prices. The artificial price juggling dictated for major producers by the erratic guidelines created a cost-price squeeze for smaller companies specializing in extruded aluminum products. Under the distorted price structure, many of these smaller firms feared that they would soon have to go out of business. Such are the unintended consequences of twisting the market price structure out of its normal configuration.

Early in 1980, with inflation roaring along at an unprecedented 18 percent rate, panic set in. A number of vocal economists, including Gar Alperovitz, head of the National Center for Economic Alternatives, Barry Bosworth, erstwhile director of COWPS, and Bruce K. MacLaury, president of the Brookings Institution, appealed for the implementation of comprehensive, mandatory wage-price controls. As always, the general public supported this proposal. Early in February, the Gallup poll found that 58 percent of those interviewed favored mandatory controls, only 34 percent opposed them. Most importantly, Senator Edward Kennedy, then vigorously campaigning against the President for the Democratic nomination, also called for mandatory controls.

Diversionary Tactics

The President, of course, had to "do something." To his credit, he resisted the pleas for mandatory controls. Instead, he pressured a reluctant Federal Reserve Board into a new diversionary foray, a jerry-built program of controls over credit and investment institutions. And he resorted to jawboning, launching a series of meetings with industry delegations to urge greater price restraint.

COWPS and the President made good use of public hostility toward the oil industry. On February 25, 1980, the Council released a report accusing eleven oil companies of guideline violations. The Mobil Oil Corporation led the list of sinners. Late in March, Carter publicly accused Mobil, which he had earlier called "the most irresponsible company in America," of refusing to refund more than $45 million in alleged overcharges to customers. "It's difficult for me to understand Mobil's position," said the President, "at a time when compliance is so important." Mobil responded that the charges were "patently and obviously political." The whole dispute turned on a technicality related to whether compliance should be determined on an annual or a quarterly basis. It sprang originally from Mobil's being caught between conflicting requirements of COWPS and the Department of Energy and was exacerbated by a retroactive change in the rules by COWPS.

In the midst of this furor, the Defense Logistics Agency announced on April 1 that it had awarded Mobil a $154 million contract for jet fuel. A Pentagon spokesman tried to account for this astonishing event by saying that the contract had actually been awarded on Friday, before Mobil was officially listed as a guidelines noncomplier on the following Wednesday. But George Marienthal, a deputy assistant secretary of defense, gave a more plausible explanation. "The Department of Defense is in the business of national security," he said. "We needed the fuel, so we proceeded." (It subsequently came to light that Mobil and other companies supplying the Department of Defense had been routinely obtaining waivers from COWPS's standards for a long time.)

Still, this little tempest persisted. At a news conference on April 17, Carter again railed against the big oil firm and pledged to "continue to let the American people know about the irresponsibility of Mobil." The company, now taking a more conciliatory tack, maintained that "an honest difference of opinion exists" and expressed the hope that "this difference can be resolved through good-faith negotiations." Late in April a compromise was finally reached when Mobil agreed to forgo $30 million in permissible price increases to make amends for the $45 million of alleged overcharges. The government then removed Mobil from its enemies list. In retrospect, the whole affair appears as no more than another sorry episode of Presidential demagoguery.

Assessing the Program's Effectiveness

From its beginning, the guidelines program rested on a fallacious economic theory. When one employs this theory in assessing the effectiveness of the program, one reaches false conclusions. The root of the problem is a persistent confusion of absolute and relative prices. Equivalently, one can say that the government's theory embraces the layman's untutored notion that any individual price increase, whether for bread, gasoline, or labor, signifies inflation. Defining inflation in this way, which is now commonplace in the news media—witness "energy inflation," "wage inflation," and similar terms—can only confuse and mislead. Proponents of this view quickly arrive at the conclusion that prices (in general) rise because prices (in particular) rise. This attempt to substitute arithmetical identity for economic theory is completely empty as an explanation of inflation.[5]

In modern economic analysis, inflation is defined as an ongoing decline in the purchasing power of money. Inflation, properly defined, cannot occur unless total money expenditure increases relative to total real output. In recent years, inflation has occurred mainly because large increases in the money stock have fueled a rapid increase in money expenditure while total real output was expanding much more slowly—or sometimes not at all. The Federal Reserve System, under heavy pressure to monetize the enormous federal deficits—not OPEC and not acts of God—caused this excessive growth of money expenditure.

Yet the government continued to deny all responsibility and to attempt to shift the blame onto others — Big Business, Big Labor, Arabs, and Nature. In his economic report to the Congress in January, 1980, President Carter's third sentence was: "Higher oil prices were the major reason for the worldwide speedup in inflation during 1979." Inflation was "concentrated in a few areas," he said, citing energy, homeownership and finance, and food. This is nonsense. Inflation cannot be "concentrated" in certain product lines; it is not something that happens to the prices of particular products but rather applies *only* to the average price of *all* products (or, equivalently, to the single "price" of money).

Self-Satisfaction

The guidelines, according to the President, "served the Nation well. Although the price standards had only limited applicability to food, energy, and housing prices, in the remaining sectors of the economy, for which the standards were designed, prices accelerated little." This assessment rested on the findings of studies by the Council of Economic Advisers as well as COWPS. The latter Council concluded from its statistical analyses that "had the standards not been in place during the year and a half ending in March 1980, the annual rate of increase of labor compensation would have been almost 2 percentage points higher . . . and the overall inflation rate almost 1/2 to 3/4 percentage points higher."[6]

This conclusion only reflected the idea that inflation occurs whenever an individual product price rises.

During the year and a half studied, the GNP deflator, an index of the overall average price level, increased at an annual rate of about 9 percent. (The CPI, an unrepresentative index of the overall price level, increased during the same period at an annual rate of about 16 percent.) The Council claims that because *some* prices, those effectively restrained by the guidelines, rose less than they otherwise would have, the overall rate of inflation was restrained. This assertion implies, first, that the rate of increase of money expenditure diminished for one class of goods (those subject to the guidelines, which represent about 60 percent of the economy), which is by no means certain, inasmuch as enough additional units could have been bought to more than compensate for the restrained prices; and, second, that the rate of increase of money expenditure for all other goods remained the same as it would have been in the absence of the guidelines, which is implausible. Neither COWPS nor the CEA attempted to show that the guidelines reduced the rate of growth of *overall* money expenditure. Of course, they could not show this, because it did not happen.

To the extent that the guidelines succeeded in restraining some individual prices—and they certainly appear to have done so—they succeeded only in distorting the structure of relative prices, not in reducing inflation. Inflation, no matter which index is used as a measure, unquestionably accelerated after the guidelines program went into effect. The GNP deflator increased at an annual rate of 6.9 percent between the third quarter of 1976 and the third quarter of 1978. Between the latter quarter and the second quarter of 1980, under the guidelines, the annual rate of increase was 9.2 percent—exactly one-third higher. The guidelines clearly failed to prevent an acceleration of inflation.[7] To show that they simultaneously distorted the relative price structure, as COWPS and the CEA proudly did without fully appreciating what they were doing, is only to add another item to the already lengthy indictment against this make-believe anti-inflation program. In reality, because distortion of the relative price structure leads to misallocation of resources, thereby increasing economic inefficiency, one can conclude that the guidelines must have *raised* the rate of inflation by lowering the economy's total real output below what it otherwise would have been.

The End

As the summer of 1980 merged into autumn, the coming elections preoccupied the Carter administration, and the guidelines program received little attention. The two advisory committees recommended that the existing standards be extended through December 31, and COWPS accepted this recommendation. The guidelines, said Kahn, were a "profoundly political" subject, and it would be best to defer consideration of further changes in the program until after the election. Most of the suggestions received from business and the general public called for either retaining the existing standards or scrapping the program altogether. In August the Business Roundtable, a group of some 200 executives of major corporations, which had earlier supported the program, called for its termination. Guidelines, said the Roundtable, "distort public understanding of the causes of inflation." True enough, but unfortunately the program had done much greater damage. Most significantly, it had helped to delay the ultimate day of reckoning when the inflationary enemy must be faced squarely and fought with real weapons. *It had therefore insured that the inevitable battle would be an even costlier and more socially wrenching affair.*

With Jimmy Carter's crushing defeat on November 4, 1980, the guidelines were doomed to pass away completely. But we would do well to remember that this kind of policy, like the phoenix, has a way of rising from the ashes. (Not so long ago, a *Republican* administration, on frightfully flimsy grounds, gave us mandatory wage-price controls.) Inflation is not about to disappear simply because Ronald Reagan has been elected. To bring it under control, heavy economic and social costs will have to be borne and difficult political decisions made. Not inconceivably, the Reagan administration may someday find itself tempted to impose controls. One can only hope that a full appreciation of the workings of the Carter program—and of the Nixon program before it—will discourage any future resort to such misguided and counterproductive policies.

—FOOTNOTES—

[1]George P. Shultz and Kenneth W. Dam, "The Life Cycle of Wage and Price Controls," in *Economic Policy Beyond the Headlines* (New York: Norton, 1977), pp. 65–85.

[2]Robert Higgs, "Carter's Wage-Price Guidelines: A Review of the First Year," *Policy Review* 11 (Winter 1980):97–113.

[3]AFL-CIO, *The National Economy, 1979* (Washington, D. C., November 1979), n.p.

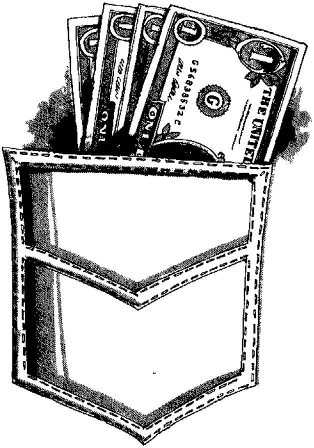
[4]Paul Bennett and Ellen Greene, "Effectiveness of the First-year Pay and Price Standards," *Federal Reserve Bank of New York Quarterly Review* (Winter 1979–80):52–53.

[5]Robert Higgs, "Blaming the Victims: The Government's Theory of Inflation," *Freeman* 29 (July 1979):397–404.

[6]Council on Wage and Price Stability, "The Pay/Price Standards Program; Evaluation and Third-Year Issues," *Federal Register* 45 (Friday, July 11, 1980):47067. See also the *Annual Report of the Council of Economic Advisers* (Washington, D. C., 1980), pp. 38, 84.

[7]Jon Frye and Robert J. Gordon, "Government Intervention in the Inflation Process: The Econometrics of 'Self-Inflicted Wounds,'" *American Economic Review* 71 (May 1981):292.

Russell Shannon



Incentives and Income Taxes

HERE'S an intriguing opportunity: A book club now offers two free books to any member submitting the name of a friend who wants to join. But if you submit a *second* name, you will get *five* books!

Why does the club offer more than twice as much "pay" for just twice as much product? Is the offer obligatory or just odd? Surprisingly enough, it goes a long way toward explaining the movement to reduce income taxes.

Finding a second friend to join the club could be considerably more difficult than finding the first. You may have to travel further, or talk longer to convince him. That makes the larger reward crucial.

But what if extra effort were unnecessary? What if you could convince two friends of the benefits of membership simply by making a 15-minute phone call to each one? As it turns out, even then an additional incentive may be needed.

Examples of this fact pervade our economic lives. The need to increase incentives regularly appears whenever companies want employees for overtime work; usually they must pay workers time-and-a-half, even though the duties involved do not differ from the ordinary routine. Similarly, when you buy a box of cereal in the supermarket, you may receive along with it a coupon worth ten cents on a second box.

Diverse though these examples may seem, they all have one thing in common. They all illustrate the

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fundamental economic principle of "diminishing marginal returns." Sometimes, the same principle is called the law of "increasing costs."

Understanding of this principle dates back at least two centuries. In 1789 Thomas Malthus published his thoughts on population.[1] Using data provided by Benjamin Franklin and others, Malthus predicted that population growth eventually would outstrip the food supply.

That prediction is one of the reasons economics even today is called the "dismal" science. In current discussions of famine in Third World countries, references to the "Malthusian specter" are not unusual. In Aldous Huxley's famous novel *Brave New World,* women wear "Malthusian belts" designed to prevent conception and control population growth.[2] But what has Malthus to do with book clubs and income taxes?

If you take time to find a friend to join a book club, you will be confronted by a cost. The cost isn't necessarily money—unless you actually take time off from your job. But you will have to give up working in your yard, playing a game of bridge, or watching TV.

Such a sacrifice might be fairly easy to make while finding the first friend. But what about the second? Giving up one TV program or half an hour of your yard work may not mean much. But the second half hour will surely mean more; that is, the cost increases. So you will need a larger reward to compensate. The people who run the book club obviously know this, and they have acted accordingly.

By the same token the company that sells cereal knows that a second box of their product will be less attractive to most people than the first. The cost—or opportunity forgone—will be larger. Thus, by making them a better offer on the second box, the company may entice people to buy more.

Progressive Rates of Tax

All of this may seem strangely remote from the matter of income taxes, but in fact it is not. Both our federal and our state income taxes are "progressive." That means that, as people earn larger incomes, they move into higher income tax brackets. So more pay means they end up sending a larger share of their income to the government.

Several arguments support the progressive system, not all of them objectionable. Some people, of course, urged on by envy, merely like the idea of trying to "soak the rich." Others, however, talk in terms of peoples' ability to pay; they maintain that wealthier individuals can surely afford to shoulder a larger share of the tax burden. But what effect do rising tax rates have on the incentive to work?

Clearly, the progressive rates may

generate a perverse response. Consider, for example, a married person whose employer offers him the opportunity to do more work and earn more income. Say this employee, in exchange for ten per cent more work, could get 15 per cent more pay. Based on what we have just discussed about human inclinations, we would reasonably expect the employer to make that kind of offer.

But the increase in pay may shift the employee into a higher income tax bracket. If his taxable income were about $20,000, he could, as a result of the pay increase (and based on 1980 federal income tax rates), vault from paying 28 per cent on marginal income to paying 32 per cent. Thus the incentive to work may be so diminished that it will no longer be attractive.

For someone in an even higher income tax bracket, the adverse effect is augmented. Thus, to secure the employee's services, the employer would be forced to make an even better offer. Of course, the job might be offered to someone else but he might lack the competence. Thus the job will go unfilled and the work undone, and society will be the poorer for it.

In recent years, Congress has graciously refrained from raising our income tax rates. However, Social Security taxes have risen dramatically. Simultaneously, inflation, prompted largely by the rapid growth of government spending, has shoved more and more Americans into higher and higher income tax brackets.

Thus there is less and less incentive to earn incomes that are taxable. So unless we like more leisure, we are increasingly inclined to enter the so-called "underground economy."[3]

Of course, that doesn't mean people are actually burrowing beneath the soil—or looking for oil. Instead, they engage in barter or else make payments in cash, seeking thereby to escape the ever watchful eyes of the Internal Revenue Service.

In one case, for example, a worker presented a bill for some repair work to a home owner for $30. When the owner started to write out a check, the worker demurred and insisted instead on receiving cash. But when the owner discovered he had only $25 in his wallet, the worker accepted it, gladly sacrificing the $5 rather than pay taxes on $30!

The Underground Economy

The phenomenal growth of such activities has become so substantial that, by some estimates, our "underground" activity may now be the equivalent of 20 or even 30 per cent of Gross National Product. Certainly, this production is, in some sense, less desirable than it would be if everything were out in the open. Besides that, our government is losing tax revenue which might otherwise be used to build schools or shore up our national defense.

If tax rates fall, American workers will have greater incentives to produce goods and services for American consumers. Some people who are already working will leave the underground for the more efficient open economy. Thus, income subject to taxation will grow.

In fact, it's even possible that, though income tax *rates* fall, the increase in taxable economic activity will be so great that tax *revenues* will rise. That is the thesis underlying the now-famous Laffer curve, originated by the economist Art Laffer.[4] The implication is that, while tax rate cuts will directly benefit individuals, in the end society as a whole will prosper.

At first glance, you might have thought the book club's offer was either totally absurd or grossly irrelevant. But it's not. It bespeaks a universal truth which underlies much of the current "supply side" economics. When you understand that additional effort often requires increasing rewards, then, along with many others, you may be eager to ride the tide of enthusiasm rising relentlessly behind the tax reduction program.

—FOOTNOTES—

[1]T. R. Malthus, *An Essay on Population* (New York: E. P. Dutton and Co., 1958). See Vol. 1, Book I, Chapter I, pp. 5–11.

[2]Aldous Huxley, *Brave New World* (New York: Bantam Books, 1962), p. 34.

[3]See Alfred L. Malabre, Jr., "Underground Economy Grows and Grows," *Wall Street Journal,* October 20, 1980, p. 1; Robert M. Bleiberg, "Surfacing the Scratch," *Barron's* February 9, 1981, p. 7.

[4]See Edward Meadows, "Laffer's Curve Picks Up Speed," *Fortune,* Feb. 23, 1981, pp. 85–88; "A Guide to Understanding the Supply-Siders," *Business Week,* December 22, 1980, pp. 76–78; Rowland Evans and Robert Novak, "What 'Supply Side Economics' Means to You," *Reader's Digest,* June 1981, pp. 118–122; "Laffer: A Steady Supply of Ideas," *Newsweek,* June 29, 1981, pp. 11, 13; "The Laffer (not laughter) Curve" in Richard B. McKenzie and Gordon Tullock, *The New World of Economics: Explorations into the Human Experience* (Homewood, Ill: Richard D. Irwin, 1981), pp. 227–241.

The High Cost of High Tax Rates

IDEAS ON LIBERTY

IN COMBINATION, the high rates of corporate, personal, and estate taxes have the effect of creating an all but irresistible "death wish" in the successful, small, closely held company. The owner of such a company is likely to have as his principal concern, not how he can expand and insure the continuity of the venture, but rather how he can most advantageously sell it out, liquidate it, or cut down his share of ownership—all in defense against potentially confiscatory taxes.

THE MORGAN GUARANTY SURVEY

Clarence B. Carson

C. S. Lewis on Compelling People to Do Good

ONE of the more amiable traits which many people have is the inclination or desire to share something good with others. If good fortune befalls them, they rush to share it with their friends. If they discover a good recipe, an interesting author, a new plant, or whatever, they can hardly wait to share the information with someone. I once knew a good woman who was so given to sharing what she cooked with others that her husband accused her of waylaying passersby on the road to feed them.

There are pitfalls to be avoided, however, even in such good-natured sharing. Not everyone is at every moment at the right spiritual pitch to appreciate the good tidings of others. Not all palates are prepared for experiencing some exotic flavor that may be thrust upon them by sharers. Having to look at and appreciate someone else's vacation pictures is notoriously unpopular with many people. Wise sharers select their sharees with care.

There are those, however, who are not content with merely sharing what they conceive to be good with willing recipients. Indeed, there are those who go beyond sharing with reluctant recipients. If they decide that something is good, or would be good for us, they are determined we must have it or do it whether we want it or not. In short, they force it upon us. But they go beyond that even; they do not stop with forcing others to share what is theirs. They use the powers of taxation to take from all of us what they are determined to force upon at least some of us. In brief, they would compel all of us to be good, do good—what is "good"

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by their lights, of course—or to provide goods for those whom they judge to have an inadequate supply.

Ancient Practices

Ours is not the only age in which those with a bent to such compulsions have gained the upper hand. Peoples in other times have differed with us about what goods should be imposed or dispensed but have been equally moved to provide them for everyone. In some lands, clergymen have been paid at public expense to insure that the populace would have the benefits of their message. The American Puritans thought that listening to sermons was such a great good that attendance should be required. In the late Middle Ages, there were countries in which orthodox religious belief was reckoned to be so important that failure to profess the approved beliefs could lead to torture and death. Quite often, in the course of history, people have been compelled by those in power to do what was thought would be good for their bodies, their minds, their souls, their rulers, their countries, or what have you.

But it has remained for our age to systematize, regularize, and generalize the compulsions to do "good." The Internal Revenue Service has made the inquest an annual affair for everyone, with computers to ferret out the most likely candidates for fullfledged inquisition. Nor did the Puritans increase their sermonic benefits based on a cost of sinning index.

As I say, we have systematized both taxation and the modes for the bestowal of goods. Compulsory "doing good" is the largest and most expensive enterprise in the United States. People are compelled to pay taxes, much of which are set aside for doing "good works." These "good works" run the gamut from providing free lunches for some school children to giving foreign aid to whole countries. Compulsion is also used more directly to make people do "good," as when parents are compelled to send their children to school or employers are compelled to adopt safety measures imposed by OSHA. But it is as taxpayers that we are most universally made to join in "doing good."

The Propriety of Force

Much can be and has been said for and against many of the programs themselves. That good has been and can be done in these ways can be questioned. But I wish to examine some more basic questions here. I want to focus on the matter of the use of force itself, and of its propriety for Christians. Granted, this subject may be of primary interest only for Christians, but, as I hope to show, it concerns others as well.

Apparently, many people assume that because Christian teaching enjoins giving help to those who are in need it is, therefore, in keeping with Christianity to use the force of government to do good works. Social gospellers, for example, advanced this notion with considerable fervor.[1] There have been Christian socialists who favored the redistribution of wealth by government as being in accord with Christian principles. Indeed, the argument has even been made, though not very actively of late, that Marxism or Communism is nothing more nor less than putting the teachings of Jesus into practice. At any rate, many professing Christians are not averse to using government in myriad ways that are supposed to do good, and a goodly number of non-Christians incline to accept the notion that their attitude is in keeping with Christianity.

There should be no doubt that Christians are enjoined to do acts of helpfulness, kindness, and works of charity for the helpless and those in need. Nowhere is this made more emphatic than in the description by Jesus of the Last Judgment. There, the distinction between the righteous and the damned is precisely between those who have fed the hungry, given water to the thirsty, shown hospitality to strangers, clothed the naked, and visited those who were sick or in prison and those who have not. For, he said, "Inasmuch as ye did it not to the least of these, ye did it not to me. And these shall go away into everlasting punishment: but the righteous into life eternal." (Matthew 25:45-46.)

But it does not follow that Christians are to use force in doing these good works or give their approval to government use of force in doing so. The Bible is not, of course, a textbook in political science or political economy. It is not surprising, then, that the subject does not come up directly in the New Testament. But even if there were much more political commentary than is the case, the subject of government compelling people to do good might not have arisen. Governments in those days were not greatly addicted to doing good deeds.

Voluntary Giving

Even so, it is possible to infer a Christian position from Scripture. The impetus of New Testament teaching is in the direction of the voluntary, loving, and concerned doing of good, not in that of forced acts. There is a large body of evidence pointing to the conclusion that voluntary giving is what is commended, but there is also some evidence that government and force are not directly a part of the Christian endeavor. For example, in an effort to trap Jesus, the chief priests and scribes sent agents who asked him if it were lawful to pay taxes. Jesus requested a coin and asked them whose likeness was on it. They answered that it was Caesar's. "And he said unto them, Render therefore unto Caesar the things which be Caesar's, and unto God the things which be God's." (Luke 20:25) One of the inferences to be drawn from this is that God and Caesar (government) operate in different realms and, undoubtedly, in different ways.

On the use of force, Jesus had something quite pointed to say. When he was being arrested to be put on trial, one of the disciples, Peter, according to one version, drew his sword and cut off the ear of a man who had laid hands upon Jesus. "Then said Jesus unto him, Put up again thy sword into his place; for all they that take the sword shall perish with the sword." (Matthew 26:52) Again and again, Jesus said that he came to bring life. The sword (force) is an instrument of death, hence, proscribed in Christian undertakings.

The Gospel on Government, According to St. Paul

The Apostle Paul dealt with government in some detail in the 13th chapter of Romans. In essence, what he had to say is this: the powers that be are ordained of God to punish wrongdoers. It is for your good that wrongdoers should be punished; therefore, you should obey the powers over you and pay that tribute to them which is their due for the office they perform. In the conclusion of the chapter which just precedes that one, however, he had urged the avoiding of the use of force:

> Recompense to no man evil for evil. . . .
>
> If it be possible, as much as lieth in you, live peaceably with all men.
>
> Dearly beloved, avenge not yourselves. . . .
>
> Therefore, if thine enemy hunger, feed him; if he thirst, give him drink; for in so doing thou shalt heap coals of fire on his head.
>
> Be not overcome of evil, but overcome evil with good.
>
> Romans 12:17-21.

It is clear to me, at least, that there is no warrant in the teachings of Jesus and his disciples for compelling people to do good works or to be good. Voluntary aid is commended; force is eschewed. But the late C. S. Lewis had some illuminating thoughts on these matters, and I should like now to call attention to some of them. I do so the more gladly because it provides me with the opportunity to talk about one of my favorite writers. Also, it adds the weight of one of the leading Christian apologists of the twentieth century to the case against compulsion.

As I noted, however, even the innocent offer to share is not always welcome, and I have had occasion to learn that Clive Staples Lewis (1898–1963) does not appeal to all readers. A lady to whom I loaned one of his books assured me that he was too difficult. A minister gave it as his opinion that his work was tedious, or, at least, that he went on and on about things that might be better handled briefly. Another thought him rather too bold in choosing his subjects. Thus, although my enthusiasm for his work is undiminished by any adverse criticism I have encountered, my determination to share him with others is tempered by the realization that not everyone will be as taken by his wit, his wisdom, his tenacious reasoning, and his candor as I have been. He has not lacked readers, of course. For example, his little book, *Mere Christianity,* was published in the United States as a paperback in 1960. By 1970, it was in its twelfth printing. I recommend him, rather, because each new reader may, perchance, be *Surprised by Joy,* as he titled his autobiography.

A Scholarly Mission

C. S. Lewis was nothing less than a Christian missionary to the twentieth-century intellect. He perceived that the modern temper makes it unusually difficult to accept the claims to truth of Christian teaching. Yet, he set himself the task of demonstrating the intellectual possibility of their truth and, that done, to assert those claims boldly and without compromise with the spirit of our times, or any other. He was superbly equipped for the undertaking. He was a scholar, an Oxford don, a professor of English literature, a man at home in the classics, a poet, a novelist, a satirist, a writer of children's stories, yet a man who did not shrink from debates with atheists, nor count himself too high to bring his thoughts to unlearned soldiers.

Appropriately enough, Lewis was a convert to Christianity, for he had that zeal about it often associated with converts. A convert from what? From modern intellectualism, no doubt, from its relativism, from its tendency to reductionism, from its sophistries, and, ultimately, from its world-weariness.

For C. S. Lewis, becoming a Christian was a jarring awake, a coming alive, so to speak, a coming alive to possibilities, to choices, to the perils of the soul, to the potentialities of the mind, and, above all, to the more-than-ness of everything about him. As Paul Holmer has said, "He wanted to be tasteful, to live with relish, to be a master of daily life not its victim, to be upright and just, to be holy and pure. . . . He put his academic training and skills under the sovereignty of those more fundamental aspirations."[2] If he had been a more sensual man, it might have been more appropriate to say that he lived life with gusto; as it was, he lived the life of the mind and spirit with more than a little gusto.

Christianity provided C. S. Lewis with a perspective on life, not a theory. It was a perspective from which everything mattered, but some things matter much more than others. What matters most in this world is the individual, he thought. That is, if Christianity is true, it is individuals that matter most. Lewis said, "If individuals live only seventy years, then a state, or a nation, or a civilisation, which may last for a thousand years, is more important than an individual. But if Christianity is true, then the individual is not only more important but incomparably more important, for he is everlasting and the life of a state or a civilisation, compared with his, is only a moment."[3]

The Human Potential

The ultimate importance of the individual, Lewis believed, lies in the potentiality he has for growing, maturing, and developing as far as may be into man as he could be. In other words, it is to become as fully human as possible. Only as he has prepared as fully as he can by realizing the human in him will he be ready for the Divine in the hereafter. It is this perspective on man that informed Lewis's outlook on the use of compulsion. That spiritual growth and development which he held to be the end of man can only occur significantly as it is chosen and willed. Even God only stands at the door and knocks; it is hardly appropriate for man to do more.

Lewis was an Englishman, and many of his remarks about government were penned amidst the growth of government control during World War II and under the Labour Party. However, they were not partisan either in tone or words. He declared that the "modern State exists not to protect our rights but to do us good or make us good—anyway, to do something to us or to make us something. Hence the new name 'leaders' for those who were once 'rulers.' We are less their subjects than their wards, pupils, or domestic animals. There is nothing left of which we can say to them, 'Mind your own business.' Our whole lives *are* their business."[4]

Lewis denied either that government could make men good or that it was its office to attempt it. "You cannot make men good by law," he said, "and without good men you cannot have a good society."[5] Good people, he thought, were an individual matter, not something achieved in the mass. The basic business of government is to punish wrongdoers, Lewis believed, not to make men good.[6]

He explored the notion of compelling people to do or be good in an essay titled, "Lilies that Fester." There he identified two different types of rule in which it may be attempted. One is a theocracy, of course, which means, simply, rule in the name of God. The other he called "charientocracy." As best I can make out, a "charientocracy" is rule by intellectuals, the "cultured," technocrats, scientists, or, in short, a humanistic elite under the sway of the notion that they know what is best for us.

Theocracy Deplored

Lewis left no doubt about his low estimate of the merits of a theocracy. He said, "Theocracy is the worst of all possible governments. All political power is at best a necessary evil; but it is least evil when its sanctions are most modest and commonplace, when it claims no more than to be useful or convenient and sets itself strictly limited objectives. Anything transcendental or spiritual, or even anything very strongly ethical encourages it to meddle with our private lives. Let the shoemaker stick to his last."[7] Along the same lines, he declared elsewhere, "I do not like the pretensions of Government—the grounds on which it demands my obedience—to be pitched too high. . . . I believe in God, but I detest theocracy. For every government consists of mere men and is, strictly viewed, a makeshift; if it adds to its commands 'Thus saith the Lord,' it lies, and lies dangerously."[8]

On the matter of Christians imposing their view on society at large, he had these things to say. Even if Christians were in the majority in a society, he said, "our rulers would still be fallen men, and therefore, neither very wise nor very good. As it is, they will usually be unbelievers. And since wisdom and virtue are not the only or the commonest qualifications for a place in the government, they will not often be even the best unbelievers."[9] He doubted that even the Christian concept of the durability of marriage should be forced upon the society generally. "A great many people seem to think," he pointed out, "that if you are a Christian yourself you should try to make divorce difficult for everyone. I do not think that. At least I should be very angry if the Mohammedans tried to prevent the rest of us from drinking wine. My own view is that the Churches should frankly recognize that the majority of the British people are not Christians, and, therefore, cannot be expected to live Christian lives."[10]

But Lewis doubted that England, or any other country, was in much danger of a fullfledged theocracy. There have been some changes of mood since the days when he was writing. Israel has elements of both theocracy and socialism in its practices. So do several of the Moslem countries. There are even distant rumblings of theocratic impositions in the United States, though I suspect there is more sound than fury behind them. In any case, Lewis understood rightly that what we are up against is both the prospect and reality of government compelling people to do good on humanitarian, scientific, elitist, and welfare-statist grounds rather than theocratic. While he must have been aware that there is often an admixture of the social gospel underlying the thrust of these, he was not inclined to ascribe it to Christianity.

He went into the humanitarian and scientific arguments most thoroughly in connection with capital punishment. Lewis did not profess to know whether there should be capital punishment or not. But he objected strenuously to the line of arguments used by opponents of it. Opponents of capital punishment—and, by extension, any kind of punishment, *per se*—usually attempt to maintain that it could only be justified on either one or both these grounds: that it would deter others from committing crimes or that it would reform or improve the criminal. But if these were the only grounds for punishment, Lewis pointed out, they remove "from Punishment the concept of Desert. But the concept of Desert is the only connecting link between punishment and justice. It is only as deserved or undeserved that a sentence can be just or unjust."[11] Lewis noted, too, that the tendency to interpret crime as being the result of a pathological condition tends to shift the emphasis from reforming the criminal to healing him. Thus, his contention "that this doctrine, merciful though it appears, really means that each one of us, from the moment he breaks the law [is arrested, would be better], is deprived of the rights of a human being."[12]

Morality and Choice

Although it may not appear to be the case on first glance, it seems to me that Lewis came to the heart of the matter of compelling people to do good in his case against what he called "The Humanitarian Theory of Punishment." Between the lines, Lewis tells us that to do or be good is a human possibility, that it is moral, and that it becomes so by choice. Remove the element of choice, attempt to impose it as therapy, and man is reduced to the level of an animal, the mentally incompetent, or a small child. Goodness is bereft of its moral character.

Although there is much more to the essay that it would be worthwhile for any to read, the crux of the matter is reached in these words: "Of all tyrannies a tyranny sincerely exercised for the good of its victims may be the most oppressive. . . . Their very kindness stings with intolerable insult. To be 'cured' against one's will and cured of states which we may not regard as disease is to be put on a level with those who have not yet reached the age of reason or those who never will. . . . But to be punished, however severely, because we deserved it, because we 'ought to have known better,' is to be treated as a human person made in God's image."[13]

In short, and as I interpret what Lewis has said, compelling people to do good not only takes away their freedom but their responsibility as well. Its tendency is to childrenize the race or produce a sub-human species.

"Lastly," Lewis said, "I reach the point where my objections to Theocracy and to Charientocracy are almost identical. 'Lilies that fester smell far worse than weeds.' The higher the pretensions of our rulers are, the more meddlesome and impertinent their rule is likely to be and the more the thing in whose name they rule will be defiled. . . . Let our masters . . . leave us some region where the spontaneous, the unmarketable, the utterly private, can still exist."[14]

Welfare Weakens Recipients

C. S. Lewis was in his prime at the time when the welfare state, or socialism, seemed to be most firmly fixed upon the United Kingdom. He never professed to know much about economics, indeed, denied even sufficient knowledge to make any significant comments on the subject. This was almost certainly the case. He suspected that the modern obtrusive state had become a permanent fixture, at least for this age. His objections to the compelling of people to do good might well have made him an out and out opponent of the welfare state. It did not do so mainly for two reasons, I suspect. First, his main effort was increasingly devoted to the defense and exposition of Christianity, and any partisan effort would have drawn him away from this work. Second, lacking the economic understanding, he was less than certain that he would be right in opposing the ameliorative efforts of the state. Even so, he had this to say about its tendencies and dangers:

> The question about progress has become the question whether we can discover any way of submitting to the worldwide paternalism of a technocracy without losing all personal privacy and independence. Is there any possibility of getting the super Welfare State's honey and avoiding the sting?
>
> Let us make no mistake about the sting. The Swedish sadness is only a foretaste. To live his life in his own way, to call his house his castle, to enjoy the fruits of his own labour, to educate his children as his conscience directs, to save for their prosperity after his death—these are wishes deeply ingrained in white and civilized man. Their realization is almost as necessary to our virtues as to our happiness. From their total frustration disastrous results both moral and psychological might follow.
>
> All this threatens us even if the form of society which our needs point to should prove an unparalleled success. But is

that certain? What assurance have we that our masters will or can keep the promise which induced us to sell ourselves? Let us not be deceived by phrases about "Man taking charge of his own destiny." All that can really mean is that some men will take charge of the destiny of others. They will be simply men; none perfect; some greedy, cruel and dishonest. The more completely we are planned the more powerful they will be. Have we discovered some new reason why, this time, power should not corrupt as it has done before?[15]

In sum, the willingness to share what is ours with others is an amiable and attractive trait. Christians are enjoined to offer help to those whom they encounter in need. But even in willing sharing it is well to keep in mind the wishes of others before thrusting one's goods upon them. To force one's own goods upon others would be an unwarranted imposition. But tyranny is waiting in the wings, if it is not already upon the stage, when the power of government is used to force people to do or be good. And, if Lewis is correct, the higher the motive for attempting it the more vicious the tyranny. Or, as he put it, in the words of John Bunyan: "It came burning hot into my mind, whatever he said, and however he flattered, when he got me home to his House, he would sell me for a Slave."[16]

—FOOTNOTES—

[1]See my discussion of them in *The Flight from Reality* (Irvington, N. Y.: FEE, 1969), pp. 254–74.

[2]Paul L. Holmer, *C. S. Lewis: The Shape of His Life and Thought* (New York: Harper & Row, 1976), pp. 110–11.

[3]C. S. Lewis, *Mere Christianity* (New York: Macmillan, 1960), p. 73.

[4]C. S. Lewis, *God in the Dock,* edited by Walter Hooper (Grand Rapids, Michigan: William B. Eerdmans, 1970), p. 314.

[5]Lewis, *Mere Christianity,* p. 72.

[6]See Lewis, *God in the Dock,* p. 292.

[7]C. S. Lewis, *The World's Last Night* (New York: Harcourt, Brace & World, 1960), p. 40.

[8]Lewis, *God in the Dock,* p. 315.

[9]*Ibid.*, p. 292.

[10]Lewis, *Mere Christianity,* pp. 101–02.

[11]Lewis, *God in the Dock,* p. 288.

[12]*Ibid.*

[13]*Ibid.*, p.292.

[14]Lewis, *The World's Last Night.*

[15]Lewis, *God in the Dock,* p. 316.

[16]Quoted in *ibid.*, p. 294.

An Awesome Power

IDEAS ON LIBERTY

TODAY we have empowered people in our own government to do things for us without realizing the fearful extent of that power. We don't yet realize it because the people who now hold it have generally not chosen to exercise it in all the awfulness implicit in it. When they do, we will wonder how we could ever have been foolish enough to have given that power to anyone.

JAMES M. ROGERS, "Two Ways to Slavery"

Joseph S. Fulda

America at Her Best

THE NATION continuously redistributes itself, as the voluntary choices of millions of individuals, families, and concerns make themselves felt. The North goes South, the center of population crosses the Mississippi, and those urban denizens with the will and means flee the inner cities. Many view this process of adjustment with some anxiety, for the realignment of the national belts, as we have come to call them, may weaken a region's self-image and transform the character of the nation as a whole. The anxiety deepens into worry as one beholds the dissolution of neighborhoods in urban areas, for this is an ugly thing, an ugliness many are left behind to confront as it steadily worsens.

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Yet, I hold a radically different view. To me the process is natural and beautiful; it is the American ideal at work; it is America at her best. Yes, it has its ugliness, but when one considers the cause, the effect, and the alternative, the beauty of such natural adjustment is plain.

The beauty of which we speak so passionately inheres in the conceit of a federation of sovereign states, for federalism is a noble system. Based on the humanizing conception of pluralism and the natural tendency of men to seek kindred kith and like minds, the federalist system enables the smaller statewide majorities to overrule the national majority locally in matters of local concern, thus allowing the people a greater measure of control over their own lives. It is not truly the states which have rights, but the citizenry by and with whose authority they are endowed. Among these rights is the right to self-determination, realized in full measure only by a highly federated system. Such a system serves the interest of peace, as well. A large part of the reason our nation has weathered two centuries of history is that, with the painful exception that nearly destroyed it, the American systems, political and economic, have not insisted on an artificial and imposed uniformity, the rigidity that is ripping apart our neighbor to the North and perturbing finally even our archenemy to the East.

States Subjugated

Today's centralism, in contrast, has relegated the states to the status of administrative serfs constantly faced with the choice "prostitute or destitute"; these once-sovereign entities are finally learning that the inevitable result of dependence is subservience, a lesson the people, too, should learn. Untold waste of sinful proportions is another unavoidable result of large groups managing small persons and the little details of their lives; this, too, we have seen.

But worst of all, the quiet and automatic protection that federalism affords freedom has been weakened. For when the power to tax—that wellspring of tyranny which sparked the Revolutionary War—and the government encroachments thus enabled are concentrated at the state level, any substantial decrease in liberty results in the natural removal of the productive base to other states. The states are thus in competition for their means, with relative freedom one of their main dimensions of competition. This is true of nations, too, as witness the brain drain, the mass exodus of intellectuals, professionals, and producers from the Continent since the Second World War. Was America not formed by a like group of men, seeking refuge from the harsh doctrines of an authoritarian world and a new life amidst plenty? Has this country not been settled from coast to coast by men of distant lands seeking their fortunes in a free world?

This, then, is the cause of the population shifts we have witnessed, this the answer to the query "Why have they gone?" The deterioration and decay of our once-majestic metropolises are, to use Rilke's words, merely "outward and visible signs of an inward and spiritual disgrace." It is the disgrace of governments which increasingly do more and more of what they should not do and less and less of what they should do. Urban flight is the natural reaction to the drive toward a more coercive society marked by the paradoxically simultaneous loss of both liberty and security. It is a philosophical, if intuitive, judgment by the good people of this land on governments which presume to dictate to them above their level of tolerance and which no longer protect life, liberty, and property.

The More Central Control, the Less Personal Freedom

What the social planners in the institutes for public policy see as the problem, the founding fathers saw as the solution. Erosion of the tax base is not the problem, high taxes are. Loss of children to bus is not the problem, busing is. Loss of subjects over whom to rule is not the problem, subjection is. The effect of free movement between semi-autonomous entities is to naturally correct localities which do not preserve liberty and maintain security; even so authoritarian a state as New York has been forced to take notice. The frightening alternative to this quiet and automatic protection, realized only partially under today's centralism, is an artificial and imposed uniformity which leaves no escape.

Freedom of association includes both the freedom to associate and the freedom not to associate. The flight of productive citizens from the tired cities, in particular, and the Northeast, in general, is a powerful use of both freedoms, a primal expression of the American ideal. 'Tis a cause for reflection that in 120 years the defenders and detractors of the dignity of man have switched positions but the centers of power have not.

Massachusetts, the birthplace of our Revolution (or is it counterrevolution?) and center of abolitionist ferment, is today the home of authoritarian scholarship and the establishment politicos who write such notions into law. Mississippi, once a slave state who gave her native son to the Presidency of the Confederate States of America, today alone does not profess to own the child's mind by compelling his attendance at a government school unless his parents pay a private academy. She joins the Carolinas, a study shows, in hampering productive enterprises and citizens least. Once it was in New York that our federal constitution was so ably defended to the citizenry; today one must look to the state courthouses of Louisiana for a meet explication. Yet the ideas of the Northeast still hold sway, for liberalism is there defined and there practiced.

Now the winds of welcome change have swept across America, for in Ronald Reagan the statewide majorities throughout this land have chosen one of those Americans, few and far between, who deeply appreciate federalism for what it is and not for some one issue or other. If this noble conception could be endeared once more to the American heart, what a boon it would be for the liberty-loving and what a blow to the apologists of a central, omnipotent authority. I can think of no better defense of such sentiment than the words of Jefferson:

> These principles form the bright constellation which has gone before us and guided our steps through an age of revolution and reformation. The wisdom of our sages and blood of our heroes have been devoted to their attainment. They should be the creed of our political faith, the text of civic instruction, the touchstone by which to try the services of those we trust; and should we wander from them in moments of error or of alarm, let us hasten to retrace our steps and to regain the road which alone leads to peace, liberty, and safety.

The residential elections of the last decade like the more recent governmental elections are a repudiation of those who would replace the Constitution's Old Deal of liberty and prosperity with government, more government, and yet more government—while marauders roam our streets in search of criminal mischief and the ruthless abductors of whole continents move to engulf the world like a hungry, pathogenic amoeboid. The time has not come for the nation conceived in liberty to die. If we have faltered, it is for want of attention to the caveat of the Virginia Bill of Rights: "No free government, or the blessings of liberty, can be preserved to any people, but . . . by frequent recurrence to fundamental principles." Now that the blessed misery that accompanies the beginnings of tyranny has finally gripped the American people "let us hasten to retrace our steps and to regain the road which alone leads to peace, liberty, and safety."

Centralized or Multiple Economies

IDEAS ON LIBERTY

THE centralized economy still has a very great attraction for many people. It relieves them of responsibility for the conduct of their own lives so long as they adhere to the prevailing collective ideas and emotions. . . .

On the other hand, the multiple economy depends for its efficiency, not on the concentration of economic direction, but on the breaking up of that direction into as many hands as is reasonably possible. It makes every capitalist direct his own small share of the economy. His right to do so arises from his ownership of property. A multiple economy is planned or directed by the owners of farms, factories, ships, banks, trucks, shops, and in fact the owners of any property which is capable of assisting in the great work of the production of goods.

GEORGE WINDER

Hans F. Sennholz

Conflict in Canada

IF you are troubled by the social and economic conditions in the United States, you may find comfort in the thought that things might be worse. They are worse by far in most parts of the world, which are torn by conflict and strife and lingering in poverty and despair. Even our Canadian neighbors to the North are suffering from irritations and aggravations that not only are creating serious social and economic problems but also are casting doubt on the political future of Canada.

The people are chafing from rampant inflation, confiscatory taxation, soaring interest rates, and the worst recession since 1962. Ontario, the home for 90 per cent of Canada's automotive industry and wealthy heartland of Canada, is suffering the harshest impact of the recession. A host of corporations have collapsed, leaving investors impoverished and workers facing a grim future. Western Canada is coping with its own brand of economic disaster. A serious drought is hurting the grain farmers, causing feed prices to soar and the cattle industry to suffer painful losses. But above all, the West is locked in a bitter political struggle with Ottawa about energy production which both levels of government, the federal as well as the provincial, are anxious to tax at ever-higher rates. It's an ugly political fight about redistribution of income and property by political force.

Canada is a federal parliamentary state and member of the British Commonwealth of Nations. It came

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into existence as a federal union of British North America at a conference of political leaders in Quebec in October 1864. The British Parliament legalized the federation by the British North American Act of 1867, making it a subordinate and allied kingdom of the British crown as of July 1, 1867. In 1931, the Statute of Westminster declared Canada to be a partner nation with Great Britain, equal in status, and bound together only by a common crown.

For Peaceful Cooperation

The founding fathers of the Canadian federation acted in the belief that the establishment of a federal union would assure peaceful cooperation and association. A few powers were given to the union government, the rest remained with the provincial governments or with the people. The plan of government was modeled not so much on that of the United States, which was believed to be flawed as evidenced by the outbreak of the Civil War, as on that of the British empire as it was organized during the middle of the 19th century. The imperial government retained a supreme and overriding authority, but the colonies had wide powers of self-government.

The federal system was a political product of the philosophy of individual freedom and economic laissez-faire. It functioned rather well wherever government did not interfere with the daily lives of its citizens. The federal powers were limited to the preservation of order and peace, establishment of a small military force, a unifying judicial system, and the imposition of fiscal customs duties. In every other respect the Canadian people were free to run their own affairs.

This peaceful equilibrium of political powers was upset in Canada, as it was in all other federal unions, by the advent of economic interventionism and socialism. Central planning and redistribution by political force brought a simultaneous expansion of the jurisdiction of the federal government, generating a bitter political conflict about provincial rights and central power.

The absence of interprovincial trade barriers limits the power of provincial governments to conduct interventionistic policies. It makes it very difficult, if not impossible, on a provincial level to raise goods prices and production costs or otherwise hamper economic activity. Economic regulation and control are enacted uniformly on a national basis, which prevents the flight of capital from one province to another and permits government to protect the regulated industries from foreign competition through protective tariffs and many other import restrictions.

In constitutional law, Canada may still be classified as a federation, but in reality it is becoming a unitary state with Ottawa as a capital in the true sense of the word. The provinces, like the states in the U.S. or the cantons in Switzerland, are becoming mere administrative agencies of the central government.

This transformation of the Canadian federal system began in earnest after World War II. To avoid a post-war depression the federal government, without much opposition, instituted a number of social security measures, such as unemployment insurance and family allowance. It introduced a system of federal payments to all provinces to enable even the poorest to maintain a minimum level of social services. It embarked upon economic redistribution and established what is commonly called the "welfare state." But regulation and redistribution by their very nature create economic, social, and political conflict not only between the victims and beneficiaries, but also between the various groups of beneficiaries themselves. They give rise to endless power struggles that divide society into pressure groups and social classes, jeopardizing peaceful cooperation.

Autonomy for Quebec

Until the 1970s it would have been unthinkable to most Canadians that separatist movements would threaten the cohesion of the Canadian federation. But on November 15, 1976, the people of Quebec democratically elected a separatist government with a strong majority of 71 seats in the Quebec National Assembly of 110. It elected a Parti Québécois administration with its political platform favoring independence for Quebec and economic association with the rest of Canada. The election shattered the traditional image of peace and brought into the open the great tensions and conflicts that are rocking the political structure of the country.

Canada is not merely a union of ten provinces, but also the home of two major linguistic and cultural groups, an English-speaking community and a French-speaking community. According to the 1976 census, 61.1 per cent of the Canadian population declared English to be their mother tongue, and 26 per cent French, of whom some 80 per cent live in the province of Quebec comprising some 88 per cent of the Quebecan population.

From the very beginning in 1867, the Quebec government has spoken and acted consistently on behalf of the French-speaking minority in Canada. There were a few inner tensions in the province, no causes of conflict that strained the relationship with other provinces. But since the end of World War II and the beginning of the socio-economic transformation from a free economic order to a system of central command

and control, a vibrant form of French nationalism began to dominate political life in Quebec.

With dependable regularity the Quebec administrations, regardless of political party, have taken strong nationalistic stands against Federal encroachments. They have fought tenaciously against every federal effort to pre-empt functions and policies that were assigned to the provinces by the British North America Act. They are insisting now on a division of responsibilities, a sharing of powers between governments, in order to permit the French population to preserve its cultural identity.

Numerous political slogans reflect the thrust of their demands: "Maître chez-nous" (Master in our own house), "Québec d'abord" (Quebec first), "l'Autonomie Provinciale" (Provincial autonomy), or "Souveraineté culturelle" (Cultural sovereignty), and so on. In short, French Canadians do not care to entrust their economic, social and cultural lives to a government in which their representatives are in the minority and which is subject to the aspirations and ambitions of English-speaking majorities.

Is Quebec separation likely or possible? The answer depends entirely on the economic order that will evolve in the coming years. If the majority of the Canadian people continue to opt for ever more government intervention, which in the end leads to all-round Ottawa control over the economic lives of the people, that is, to socialism, the polarization of opinion will intensify until, in the end, an eventual Quebec separation becomes a distinct possibility. Linguistic and cultural nationalism will prevail over the confederation that no longer confederates, but commands, divides, and redistributes by majority vote.

A Power Struggle

It is unfortunate that the Parti Québécois as well as the other parties in Quebec fail to consider individual freedom as an alternative to federal regimentation. They are not opposing the command system per se; on the contrary, they are in full agreement with the basic principles of the welfare-transfer order and frequently favor yet more government intervention as, for instance, the expropriation and nationalization of important industries. The altercation between Quebec and Ottawa does not deal with the basic principles of the social and political order, but merely with the allocation of political power. Who is to be in charge of the transfer system, Ottawa or Quebec? The government representing the English-speaking majority in Ottawa or the government representing the political majority in French Quebec? In final analysis, the dispute reveals a feud over the administration of social and economic power wielded by the transfer state.

This awareness, together with the fear of losing billions of dollars of federal equalization grants and oil price subsidies, may have caused the issue of separation to wane since 1976. As time went on the Quebecan government made no overt moves toward separation, but submitted the question to a referendum on May 20, 1980. On the proposal presented by the Parti Québécois of enacting their own laws, imposing their own taxes, and establishing relations with foreign countries, while forming an economic union with the rest of Canada, 59.6 per cent of the Quebec electorate voted "No." Even among the French-speaking people, a small majority voted "No" to separation. For the moment, the union has survived the divisive forces that are gnawing at its foundation in the East.

Hostility in the West

In the West the conflict about central power and provincial rights is going from bad to worse. Western Canadians always have been suspicious of federal regulation that tends to benefit the more populous provinces, Ontario and Quebec. When Eastern Canada is calling the tunes of the transfer order the West is expected to pay the piper. At least, that's how the people in the West are looking upon Ottawa. In Alberta, the westernmost of the three Prairie provinces, the confrontation has led Premier Peter Lougheed to speak of "a declaration of war" by Ottawa.

Since 1947, when oil was first discovered in the Leduc Field, Alberta's production of crude oil and natural gas has transformed this frontier pastoral province to a burgeoning industrial center. The rise in energy prices by OPEC since 1973 then magnified the value of Alberta's energy production, causing the center of economic gravity and prosperity to shift westward. Canadian population and investment capital are leaving the old industrial centers in the East and seeking employment and return in Alberta. With just 2 million people, or 8 per cent of Canada's population, Alberta is generating 12 per cent of the country's GNP, growing larger every year. The neighboring province of Saskatchewan is enjoying a similar petrodollar boom although it has smaller deposits of primarily heavy oil. So does British Columbia, which has considerable reserves of natural gas.

Before 1973 those provinces benefited from a federal two-price system that protected and promoted domestic exploration by forcing all of Canada west of Kingston, Ontario, to use domestic oil at a price as much as $1 higher per barrel than imported crude. As the price of crude oil soared after 1973 and Canadian crude became cheaper than foreign oil, the government of Alberta was anxious to have domestic oil priced at world market levels. But the federal government proceeded to hold it down for all of Canada in order to give Canadian industry an international advantage at the expense of oil producers.

Oil exported to the U.S. was subjected to a federal tax that brought U.S. costs up to OPEC levels, and provided the federal revenue to subsidize the importation of foreign oil in the Canadian East so that there would be one low price for all of Canada. In fact, the federal government is extracting and then distributing its "fair share" of what it calls the "windfall" in Alberta's oil profits. Toward that end it is even refusing to allow oil companies to treat royalty payments made to provincial government as business costs when they are calculating federal tax obligations.

Conflicting Interests

When the U.S. was considering a pipeline through Canada to bring Alaskan natural gas to industrial markets, Alberta producers offered to sell some gas on short-term contracts. But the National Energy Board in Ottawa refused to issue the export permits. In an effort to preserve resources for Canadian use and to create new markets in Ontario and Quebec it restricted the exportation and thereby depressed the price of natural gas for Canadians, again at the expense of producers.

Such policies obviously are generating serious economic and political conflicts that are shaking the foundation of the Canadian federation. The provincial governments that represent the population victimized by these crude schemes of federal intervention are fighting back in the political arena, in federal courts, the halls of Parliament, and wherever they can thwart the federal machine. But unfortunately they rarely, if ever, argue for individual freedom and the private property order. They themselves would like to be in the driver's seat of the provincial economy. Like the oil sheiks of Arabia they like to plan and develop, invest and build, promote and encourage, tax and spend as they see fit for the economic well-being and greater future of their subjects.

With billion dollar royalties rolling into the provincial coffers they are financing "social improvements" of long-term benefit, such as low-cost medical insurance and service, investments that "establish a solid economic base," favors and subsidies for research and development, the construction and direct ownership of petrochemical plants and facilities, the purchase of Pacific Western Airlines, and so forth and so on. In short, they are pursuing the very system of radical government intervention they are fighting so vigorously when conducted in Ottawa. The friends of individual freedom are waiting in vain in the Provincial capitals for the dawn of another day.

Will Canada survive this bitter battle about the petrodollars on the prairie? It probably will. The politicians in Ottawa, Victoria, Edmonton, Regina, Winnipeg, and so on sooner or later will arrive at a compromise that permits them all to take a little more from the producers. After all, contemporary politics is the most practical of the arts by which property rights are sacrificed to the demands of the majority.

The Constitutional Dilemma

It may well be that Canada has entered the stormiest period in its history. Many ascribe the blaze of discord to the lack of a Canadian constitution. The British North America Act of 1867, which established the Canadian confederation and gave the country its basic governmental structure, is decried as alien and outmoded. Therefore, the federal and provincial governments are struggling to reach agreement on a formula that would revoke the BNA Act and permit Canadians to write their own constitution. Without such an agreement the Trudeau administration is prepared to act unilaterally, that is, on the strength of its parliamentary majority without the approval of the provinces. The provinces, on the other hand, are provoked and exasperated about what they consider a blatant federal power grab.

The federal drive for repeal of the British North America Act and its replacement by a "Canada Act" is, of course, merely another aspect of the continuous power struggle. The forces of centralization are anxious to remove the few remaining obstacles to their power over the national economy. With Pierre Trudeau it is also a personal matter: unilateral adoption of his proposals of a constitution would be a bold stroke that would assure him a place in Canada's history. At least, that's what his followers in Ontario and Quebec want us to believe. To his numerous detractors he is just like so many other rulers around the globe who, in their moment of power and glory, busy themselves with rewriting their countries' constitutions.

A Formula for Socialism

The Trudeau constitutional changes, as submitted to Parliament on October 6, 1980, offer a basic charter of human rights carefully formulated to perpetuate the transfer state. It would guarantee the freedom to move about in the country for individuals, but not for their property. It would confirm the key central government role in the equalization of provincial wealth, and adopt an amending formula for the constitution that would safeguard the eminent positions of Quebec and Ontario. It would give new controls over natural resources to the central government and redirect energy tax revenues to Ottawa. It would grant language rights to English- and French-speaking people, but not to other linguistic groups, and force Quebec and Manitoba to practice official bilingualism. And finally, all fundamental freedoms would be made subject to "generally accepted" community standards and conditions.

To the Canadian people the Trudeau proposals are presented as a sincere attempt at creating a "renewed federalism." To the student of government they merely reflect the ongoing transformation of an old political structure that was built on individual freedom and the private property order to a modern structure more consistent with the economic command system as it evolved during the past 30 to 40 years. All modern states are endeavoring to replace their federal constitutions with unitary structures. Consistently socialistic states are brushing aside all vestiges of federalism.

The basic charter of human rights as submitted to Parliament must be viewed in the same light. A government that seeks control over the production process needs working control over all factors of production: land, capital and labor. It cannot tolerate for long individual freedoms that would jeopardize or obstruct control over economic production. Therefore, it must subject all individual rights to "generally accepted" standards of which government itself is the final interpreter and arbiter. The constitutional freedoms, in final analysis, become duties and obligations the violations of which are severely punished by government.

Can Canada survive its constitutional dilemma? The answer depends entirely on the power and strength of the political forces that are locked in the constitutional struggle. Ideological conviction together with political passion are the great movers of social change. When men's passions are strongest they may accomplish a great deal, but they also may commit their greatest blunders.

Facing the Eighties

To no one's surprise, the political upheaval is leaving its mark on the Canadian economy. The Canadian dollar is losing ground against its U.S. counterpart, now selling at 81¢ in Canadian money markets. Although the Canadian central bank is intervening frequently to support its ailing currency, it continues to fall amidst rumors of a large southward flow of funds and sizeable commercial liquidations. Analysts are pointing to the huge Canadian government deficit which may exceed $12 billion in 1981. By comparison, a similar deficit in the U.S., with a population ten times larger than that of Canada, would amount to $120 billion.

Canada's inflation rate now surpasses 12 per cent, according to Ottawa statistics, and its international payment account deficit is estimated to exceed $6 billion. The official bank rate of the Bank of Canada now stands at 19.89 per cent and is expected to go even higher. The economic trend is very bearish, and it is difficult to foresee a change of trend.

Canada is enmeshed in a deep recession with declining economic output, falling purchasing power of wages and levels of living, and rising unemployment. The capital markets, which attracted many billions of dollars of U.S. venture and exploration capital during the 1950s and 1960s, are depleted and exhausted by huge federal deficits. The political hostility toward capital returns and business profits is chasing liquid American as well as Canadian capital across the border.

Moreover, in an effort to achieve "Canadian control," i.e., government control, over the petroleum industry, the federal government is restricting foreign ventures and purchasing foreign-owned oil companies through its own $5 billion oil company, Petro-Canada. The purchases obviously aggravate the drain of capital from Canada and compound the problems of deficit financing. The government of Alberta, which is strenuously opposing the Ottawa policies, has in retaliation curtailed Alberta's production of oil and prohibited further work on new oil sand development.

The Power of Example

Canadians are looking to the future; the present does not satisfy them. There is always the possibility that another political party, in particular, Joe Clark's Conservative Party, may return to power, which could lead to some decentralization of Canadian federal power along with a withdrawal of federal influence over business. Social transfer programs constructed by liberal government may someday be curtailed, which would reduce the horrendous deficits and alleviate the ravaging inflation. After all, hope springs eternal in the human breast.

Canadians are probably reluctant to admit that there is transcendent power in the example set by their only neighbor, the U.S. An American example may, in the end, be more forcible than political precept. This is why the trends and policies of the U.S. during the 1980s may have a significant bearing on the future of Canada. If the U.S. succeeds in solving its economic and social problems, which in many respects are similar to the Canadian issues, the light that will shine in the U.S. will radiate immediately across the border. If it is demonstrably true that, in November 1980, the American people embarked upon a new road to economic expansion and prosperity, our Canadian neighbors will not be far behind. But if, in the coming years, the American example proves to be merely another road in the same old direction, the destination, which is all-round government control, will be the same in Canada as in the U.S.

The world is a scene of changes. In the coming years there will be countless changes in human affairs because our thoughts and works will change. By suffering much we may yet come to see our faults and follies.

IDEAS ON LIBERTY

Rights for Robots

MILLIONS of our people now look to the government much in the same fashion that their fathers of Victorian times looked to God. Political authority has taken the place of heavenly guidance.

Herbert Spencer in that wonderful prophecy, *The Man Versus the State,* explained in detail what would happen. He foretold with exactitude the present rush of the weaklings for jobs as planners and permitters, telling other people what *not* to do.

You will have noticed that while we are all under the thumb of authority, authority becomes composed of those who, lacking the courage to stand on their own feet and accept their share of personal responsibility, seek the safety of official positions where they escape the consequences of error and failure. Active, energetic, and progressive persons, instead of leading the rest, are allowed to move only by the grace and favor of that section of the population which from its very nature lacks all the qualities needed to produce the desired results. Authority is the power to say *no,* which requires little or no ability.

On a broad view, the all-important issue in the world today is *individualism* versus *collectivism.*

The Individualist thinks of millions of single human souls, each with a spark of divine genius, and visualizes that genius applied to the solution of his own problems. His conception is infinitely higher than that of the politician or planner who at best regards these millions as material for social or political experiment or, at worst, cannon fodder.

SIR ERNEST BENN

Brian Summers

What's Your Problem?

LIFE, it seems, is one problem after another. Where do we turn for help? Most of us, at one time or another, look to the government.

Do our children need an education? We ask the government to provide schools. Do we need medical care? We ask the government to pay the bills. Is our neighborhood rundown? We ask the government to rebuild it. There seems to be no end to the solutions we seek from government.

There are, however, a few people who believe that government doesn't have all the answers. Those of us who favor free enterprise would prefer that people look to the market economy to solve more of their problems.

But we proponents of freedom work at a seeming disadvantage. Unlike the government bureaucrat, we don't offer what seems to be *the* solution. We don't draw up *the* master plan to revitalize our city. We don't propose *the* rationing plan to allocate fuel. We don't figure out how to run *the* social security system or *the* postal service.

We proponents of freedom can, of course, offer numerous examples of how the market has solved people's problems.

But we've no reason to say: "Look, this private institution is better than that government institution. Therefore, private solutions are better."

Rather, we say: "Let's compare systems. Yours is based on coercive taxation, monopoly privilege, and forced participation. Ours is based on the freedom to use our own resources to try to solve people's problems. In our system we don't claim to have *the* solution for this or that problem, because we know that in a competitive market, trial and error will soon bring forth better solutions. We let each consumer decide for himself which solution is best for his needs. We don't impose our values on anyone."

Trial and error. Competition. Freedom of choice. This is the essence of the free market system. It won't solve all our problems, but it wins hands down over "solutions" imposed by those with political power.

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Roger Ream

Price Ceilings Harm the Poor

CASUAL OBSERVATION of events can lead to faulty conclusions. Outward appearances can be quite misleading for things are not always as they seem. Failure to look beyond the obvious has led to many blunders on the part of both scientists and casual observers.

For instance, over the centuries it was obvious that we lived in a geocentric universe. Even the casual observer could watch the sun rise in the east, travel across the sky, and set in the west. However, Copernicus, among others, discovered that what appeared obvious was misleading. The solar system was in reality heliocentric, but the rotation of the earth on its axis made it appear that the sun revolved around the earth, rather than vice versa.

Likewise in the science of economics, one must be cautious when observing the effects of economic interventions. What seems obvious can be misleading. Take for example price controls. The politically determined ceiling price transmits faulty signals not only to consumers, producers and entrepreneurs, and resource owners, but also to pseudo-economists and most casual observers. As a result, the latter group reaches inaccurate conclusions concerning the effect of the price control. It appears that a control which dictates a ceiling price for a product keeps the price down (below what it would be in an unhampered market). However, this is an incomplete observation.

A recent illustration of the actual effect of price ceilings is the control of oil. To most observers, it was obvious that if the ceiling were removed on the price of oil, the price

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would rise. It was indisputable, they claimed, that if the price were no longer kept artificially low, it would increase. A so-called windfall profits tax was passed to remedy the injustices that would occur when the price rose. To question the assumption that removal of the ceiling on the price of oil would cause it to rise was to invite ridicule. It was so obvious that prices would rise and oil companies would reap windfall profits. To suggest otherwise would put one in the position of Copernicus or Galileo, who likewise questioned the unquestionable and faced banishment for doing so.

However, as experience has shown, the primary effect of the controls was to diminish the amount supplied. They caused shortages and discouraged competition. Exploration and production were curtailed, so that eventually the effect of the price ceiling was actually to hold the price of oil *above* its unhampered market level. Soon after President Reagan decontrolled the price of oil (removed the ceiling), the price began to come down. When the control was removed, production increased, additional supplies were brought to the market, and competitive forces led to *lower* prices. Things did not happen as it seemed obvious they would. The so-called experts were wrong. This was because the controlled price was not, *in effect,* just a ceiling on the price, but a ceiling on the quantity supplied. It was a disincentive to producers. The control held down the supply, not just the price. Remarkably, the ceiling was removed and the price fell.

The Unseen Consequences

Despite overwhelming economic knowledge that price controls (in this discussion, ceilings on prices) discourage suppliers, thus causing shortages and therefore eventually pushing prices above their free market levels, the clamor for controls never subsides. A plea on behalf of the poor is perhaps the loudest excuse for ignoring economic wisdom and imposing controls. This emotional appeal to the plight of the poor often blinds individuals from seeing things as they really are, rather than as they seem. Controls lead to a less efficient employment of scarce resources, and this hurts the poor the most. It is those on the bottom of the economic ladder who have the greatest stake in efforts to create the most opportunities, goods, and services from limited resources. The effect of price controls will be shortages and eventually prices higher than they would be in an unhampered market; effects precisely contrary to the stated objectives of their supporters.

An area where well-intentioned but misguided individuals have done great harm to the very groups they claim to represent is the housing sector. In this instance, a type of price control particularly harmful to the poor has reared its destructive head. It is euphemistically called rent control, but in plain language it is control of people. Local governments intrude into the voluntary negotiations between two consenting adults, a tenant and a landlord, and dictate the terms of their contractual agreement. It is a denial of freedom of choice to both tenants and landlords. It is an attempt to transfer wealth from landlords to tenants, but it is doomed to failure as landlords eventually allow their buildings to deteriorate or abandon them completely.

The actual effects of rent control are generally unseen. The pseudo-economists and many casual observers fail to comprehend the long term effects of rent control. Similar to the case of price controls on oil, a ceiling on rents discourages present and potential suppliers of rental units; consequently fewer units are made available. In an unhampered market, when the quantity supplied is diminished (possibly due to a natural disaster, for instance), other things being equal, price will tend to rise. This rise in price tends to discourage the least urgent demands, thus moving the market toward market-clearing levels.

However, controls cause the quantity supplied to decrease, but prevent price from alleviating the situation. The market is grossly distorted. The artificial drop in supply is not offset by a corresponding fall in the quantity demanded—a shortage exists. Furthermore, other things are not equal, increasing birth rates, rising divorce rates, and a vast number of governmentally-induced factors cause demand to increase. This exacerbates the disequilibrium in the marketplace, causing the housing shortage to be considerably worse.

Controls Cause Shortages

The neglected, or unseen, aspect of the situation is the realization that the removal of ceilings on rent leads, in short order, to *lower,* not higher rents. Rent controls have the same effect as controls on oil—they stimulate demand and discourage supply, thus causing shortages (remember the gas lines) and eventually prices *higher* than would prevail in an unhampered market. If rent controls were repealed the supply of rental units would increase almost immediately. Soon, the forces of competition would cause rents to move toward market-clearing levels where supply and demand are in close approximation.

At first glance, it is difficult to accept the fact that in an otherwise unhampered market, the removal of price ceilings tends to cause prices to fall. Where there are no barriers to entry, entrepreneurs seek to satisfy consumer demand. Unfortunately, many barriers to entry exist in the energy sector, the housing sector, and throughout the U.S. economy. These barriers decrease supplies. The oil and gas industry is replete with regulations and taxes which hamper the exploration, production, and distribution of energy products. Zoning regulations and restrictive building codes artificially limit the supply of housing and therefore cause higher rents and housing prices. Throughout the economy governments at all levels have erected barriers that inhibit productive activity, add to costs, and therefore reduce the supply of economic goods.

Furthermore, government policies artificially increase demand for some items. Of course, controlling the price at less than a free market level causes an increase in demand. Transfer payments enhance the purchasing power of some at the expense of others. When welfare programs are financed by inflation of the currency, an increase in demand is created virtually out of thin air. Those who get the new money first are able to purchase the limited supply of the controlled product. Since the price is controlled and therefore cannot be bid up, those first in line are able to buy out the product before others.

Government artificially increases the demand for goods and services both intentionally and indirectly through its tax structure and regulatory policies. For example, the demand for oil and gas is increased with emission controls on automobiles and by the regulation of trucking which causes less efficient transportation of goods. Government programs which offer guaranteed or low interest housing loans increase the demand for housing.

Because of the tremendous governmentally-induced influences on supply and demand, as well as the constantly changing values of consumers, it is essential that prices remain free to accomplish smoothly their functions of transmitting knowledge of changes and coordinating economic activity.

This is not a geocentric universe, even though it appears to be. Likewise, ceilings on prices do not help the poor. It is simplistic and wishful thinking to believe they are a solution to the problems of poverty. That is, it confuses what appears to be true or what one wishes to be true, with what actually is true. Price controls cause shortages and when there is less to go around it isn't the powerful or the well-to-do who will suffer most. With unfettered prices and an open market, economic efficiency will be maximized and consumers, the poor included, will be well served.

David Osterfeld

the Politics of Economic Stagnation

ALTHOUGH being gradually undermined throughout much of the twentieth century, the traditional international economic order—free trade and migration, private property, the international division of labor—has recently been subjected to its most serious attack since Lenin's *Imperialism* appeared in 1917. This time the attack has come not from Marxists trying to rationalize the failure of Marx's predictions about the economic self-destruction of capitalism, but from the "third world," or "less-developed countries" (LDCs), trying to explain their continuing poverty in the face of economic advancement by the capitalist nations of the west. According to this view the LDCs are poor because the capitalist nations are wealthy. As President Julius Nyerere of Tanzania put it:

> In a so-called free-market economy economic power depends on wealth. The wealthy can determine what will be produced because they have the power to invest. They can determine the price levels of the goods produced in their own countries and elsewhere because they have the power to buy, or withhold sale. The poor buy or sell at whatever price suits the wealthy.[1]

In brief, the market process, according to this view, works to the detriment of the poor. Thus, despite having achieved political indepen-

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dence from the west, the "economic power" of these economically advanced capitalist countries still enables them to dominate, to "exploit," the LDCs. Colonialism may be gone, but it has been replaced by "neocolonialism."

The policy implications of this "neocolonial" argument are profound. Since the wealth of the capitalist nations is the *cause* of the continuing poverty of the LDCs, justice dictates that the inequality between the developed and less-developed countries be reduced if not eliminated. As President Nyerere stated:

> I am saying that it is not right that the vast majority of the world's people should be forced into the position of beggars, without dignity. . . . (W)hen I am rich because you are poor, and when I am poor because you are rich, the transfer of wealth from the rich to the poor is a matter of right; it is not an appropriate matter for charity. . . . If the rich nations go on getting richer at the expense of the poor, the poor of the world must demand a change, in the same way as the proletariate in the rich countries demanded change in the past.[2]

This demand has been articulated in a series of measures, commonly referred to as the New International Economic Order, advanced by the LDCs, which now constitute a majority in the United Nations, and passed in that body in the mid-1970s. These measures include the following:[3]

> (1) The *transfer* to the LDCs, with no strings attached, of the financial assets of the developed or capitalist countries equal to seven percent of the latter's GNP;
>
> (2) The *transfer* to the LDCs of a larger share of the technology and productive facilities of the developed countries;
>
> (3) The indirect but no less real *transfer* of wealth to the LDCs in the form of the cancellation of their economic debts to the developed countries; and
>
> (4) The "permanent sovereignty of every State over its natural resources and all economic activities." This includes such things as "the right to *nationalization*," to impose *tariffs*, etc.

The implementation of this program would be nothing short of the creation of an international welfare state which would have serious ramifications for the traditional international order. But before we can assess the impact of the NIEO we first need to examine the validity of the "neocolonial" position on which it is based.

The "Neocolonial" Charge Examined

Simply put, the "neocolonial thesis," that the LDCs are poor because they have been exploited by the capitalist nations of the west, cannot withstand scrutiny. There are a host of countries—Singapore, Hong Kong, Taiwan, Brazil and the like—which have advanced so rapidly over the past decade or so that they have been dubbed the "newly industrializing countries." Singapore's growth rate between 1960 and 1976 averaged 7.5 percent, Hong Kong's 6.5 percent, Taiwan's 6.3 percent and Brazil's 6.5 percent, all of which were higher than those of such developed nations as the U.S. with 2.3 percent or Britain with 2.2 percent.[4] The very existence of the newly industrializing countries explodes the idea of "capitalist imperialism." For if the capitalist countries actually exploited the third world those LDCs with the closest ties with the west should be the poorest. Conversely, those with the fewest contacts should be the most prosperous. But *without exception* those countries which are the most market oriented and have the most numerous ties with the west are the most prosperous while the poorest of the LDCs are those like Nepal, Mali and Afghanistan which have the fewest contacts.[5] Thus, not only does the thesis fail to account for the empirical evidence, it is the *exact reverse* of the evidence!

The Liberal International Order

Although the "neocolonial thesis," which was used to justify the passage of the NIEO in the United Nations is unfounded, the NIEO has nevertheless come to pass. What must be considered, therefore, is what would be the probable impact of its implementation. Since the NIEO constitutes severe restrictions on the existing order its impact can best be assessed by first examining this order. Although there are important and growing exceptions, the existing international order may be termed a liberal or capitalist order, i.e., one based on the classical liberal ideals of respect for private property and its corollaries, freedom of trade and migration.

Since, in an international order based *purely* on classical liberal principles, private property would be respected and there would be neither tariff nor migration barriers, national boundaries would be devoid of economic significance. In such a world capitalists, anxious to maximize profits, would increase their investment in those areas where the cost of factors—raw materials and labor—were cheap relative to those areas where they were expensive. Conversely, workers anxious to maximize their earnings would migrate from those areas where wages were low to those where they were higher.

This is precisely what served to transform the western world in the nineteenth century. Since Great Britain began to save and invest sooner than other nations it had a higher standard of living than all other European countries. But, as Ludwig von Mises points out, "something happened which caused the headstart of Great Britain to disappear." That something was the internationalization of capital, which Mises terms "the greatest event in the history of the nineteenth century." In 1817, he continues,

> The great British economist Ricardo still took it for granted that ... capitalists would not try to invest abroad. But a few decades later, capital investment abroad began to play a most important role in world affairs.... .Foreign investment meant that British capitalists invested British capital in other parts of the world. They first invested in those European countries which, from the point of view of Great Britain, were short of capital and backward in their development. It is a well-known fact that the railroads of most European countries ... were built with the aid of British capital. The gas companies in all the cities of Europe were also British.... In the same way British capital developed the railroads and many branches of industry in the United States.[6]

The Great Migration of Capital and Labor

Occurring at the same time was the "great migration" of individuals from Europe, which was relatively overpopulated and in which wages were therefore low, to the U.S., which was underpopulated and, accordingly, wage rates were higher. This dual process of capital and labor migration would continue until equilibrium were reached, i.e., the marginal utilities of both capital and labor were equalized. This is essentially what occurred in the western world, although to the extent that there were tariff and migration barriers complete equalization was prevented. And, *other things being equal,* this is also what would occur throughout the world.

But other things are *not* equal. Compared to the west, wage rates in the LDCs are quite low while interest rates are notoriously high. This means that there is a "surplus" of labor and a "shortage" of capital and one would expect capitalists to exploit this opportunity for profit by investing in the LDCs. One would also expect this process to continue until wage rates in the LDCs equalled those in the developed countries for the same type and quality of work. In the process, as capital became less scarce interest rates, and thus returns to capital, would decline to the point at which they equalled those in the west. But this has occurred only to a limited extent. The bulk of western foreign investment has gone to other western nations, and even that from nonwestern countries, such as the Arab nations of the mid-east, has been invested largely in the already capital intensive nations of the west. Why?

(a) Lifestyle. It is sometimes forgotten that the developed countries were not always developed. Until only recently all peoples of all nations were "undeveloped." It was only in the eighteenth century, in what is now termed the Industrial Revolution, and only in a particular part of the world, in what is now designated as the "west," that the standard of living began to rise above the subsistence level. What made possible the dramatic transformation of one small section of the world while conditions in the rest of the world remained practically unchanged was, of course, the fact that by the mid-eighteenth century capital had been accumulated in Europe—or more accurately in England—in amounts sufficient to spawn the economic "takeoff."

An important question is, why was capital accumulated in Europe but not elsewhere? Several scholars have noted the existence of two fundamentally distinct lifestyles. The one has been variously dubbed a traditional or country lifestyle; the other a modern or urban lifestyle. In the former the family is the unit of production, the bulk of production is for immediate consumption, specialization and the division of labor are practically nonexistent, and innovation is eschewed, while the latter is characterized by an inquisitive, innovative turn of mind and a fairly close correlation between individual effort and reward. The factory is the unit of production, functions are specialized, relations are individualized and impersonal and the bulk of production is for sale on the market.

Historically, the relationship between economic progress and urbanization has been a close one. "It is well known," says Bert Hoselitz, "that beginning with the early eleventh century western Europe underwent a process of economic development which was accompanied by the growth of towns and urban institutions." He attributes to these cities,

> a predominant economic function. They were places in which new forms of economic activity and new types of economic organization were evolved. They were places not merely in which new commodities were traded and whence new markets and sources of supply were explored and conquered but in which appeared the first signs of new class relations based on alterations in the division of labor.[7]

In brief, industrialization and economic development require not simply hard work, which is certainly part of the traditional or country lifestyle, but also frugality, efficiency and risk taking and, related to these, the incentive for saving and investment. Since these are characteristics of the urban lifestyle, economic development required the transition from a traditional or country environment to a modern or city one.

Today the western world may be seen as the "city" and the third world the "country." This is not to suggest that the west is entirely "urbanized." The U.S. remains one of the world's chief producers of agricultural products. Yet what is most significant about this is the degree to which in the west even those in the country have adopted the lifestyle of the city. In America farming is a highly specialized occupation, and the farmer is, in fact, an entrepreneur: he generally consumes little of what he produces and since his production is for the market he must anticipate consumer demand. He must therefore decide not only what and how much to plant but when, where and how much to sell. Thus even in the developed nations the so-called country conducts itself according to the spirit of the city.

In the west even farming is a business. But an entirely different spirit pervades most of the third world: the spirit of the country. It is not just that the agricultural sector is large. What is significant is the prevalence of subsistence farming. Farming is not a business, it is an existence. Since the production unit is the single family, farms or plots are small. This precludes specialization and the division of labor. The emphasis on familial duties greatly inhibits individual mobility, and reverence for one's ancestors or for the ancient order, which is usually a component of the country, discourages innovations. Finally, the absence of the "cash nexus," of production for sale on the market, is incompatible with the development of the spirit of enterprise and entrepreneurial acumen.

An Incompatible Lifestyle

One cannot say that such a lifestyle is wrong; but it can be said that it is incompatible with economic development. An assembly line, to take a simple example, requires the coordinated activity of numerous individuals. It cannot function when individuals, unaccustomed to "punching a time clock," cannot be depended upon to arrive at work on time. The successful functioning of an industrial economy requires discipline. One may reject such a lifestyle for one of, say, religious contemplation or greater leisure. But those who adopt such a lifestyle have no right to complain because their economic position stagnates while that of others, who subject themselves to the rigors of the marketplace, advances. It is this antagonism between the prevailing lifestyle of the LDCs and the successful conduct of economic activity that in large part explains the failure of western capitalists to invest in the third world.

However, to refer to the third world as the "country" does not imply the complete absence of urban centers. They do exist and this is fortunate. For it is through such centers that contacts with the west are made. And these contacts spawned LDC development. Writes Peter Bauer:

> Over the last hundred years or so, contact with the west has transformed large

parts of the third world for the better. For instance, in the 1890s Malaya was a sparsely populated area of hamlets and fishing villages. By the 1930s it had become a country with populous cities, thriving commerce, and an excellent system of roads, thanks primarily to the rubber industry brought there and developed by the British. Again, before the 1890s there was no cocoa production in what is now Ghana and Nigeria, no exports of peanuts or cotton, and relatively small exports of palm oil and palm kernels. These are by now staples of world commerce all produced by Africans, but originally made possible by European activities. . . . Western activities . . . have thus led to major improvements in the material conditions of life in many parts of the third world. This is not to suggest that there has been significant material progress everywhere in the third world. Over large areas there have been few contacts with the west. And even where such contacts have been established, personal, social, and political determinants of economic performance have often proved unfavorable to material advance. But wherever local conditions permitted, contacts with the west most often resulted in the elimination of the worst epidemic and endemic diseases, the mitigation or disappearance of famines and a general improvement in the material standard of living for all.[8]

In short, the prevailing values throughout much of the third world discourage foreign investment. But values can change, as the existence of the NICs dramatically illustrate. It is through contacts with the west that most of the LDCs have been exposed to values compatible with development. But the degree to which these values are embraced depends on them.

(b) Government Intervention. Another reason for the dearth of foreign investment can be summarized under the heading of government intervention. While this is hardly unique to the third world, the governments of the LDCs are, as a rule, more active in the economy than are those in the developed countries. Licensing restrictions are common, as are tariffs, high taxes and state-supported monopolies. Even the forcible resettlement of entire peoples is not unknown, as the transfer of urban-dwellers to the country in Kampuchea and Tanzania's resettlement of rural people into "cooperative villages" attests. But what is of concern here are those policies which reduce the inflow of foreign capital. Two such policies, minimum wages and nationalizations, will be discussed.

Minimum Wage Laws Aggravate the Problem

It has become fairly common for the governments in the LDCs to adopt minimum wage laws in order to raise wages. But wages are low because the bulk of the workforce is unskilled and/or unaccustomed to the discipline of the industrial sector, and such laws do not change that condition. By preventing workers from offering a "compensating difference" for these drawbacks, minimum wages reduce the attractiveness of investing in the LDCs, thereby restricting the inflow of capital and increasing unemployment. In the long run such policies prevent workers from acquiring those skills which would increase their productivity, thus making investment more attractive. Hence, they retard economic development. It should not be forgotten that low labor costs, which moralists often condemn as "exploitation," has been a major factor in the rapid development of Hong Kong, Malaysia and other NICs and, subsequently, their higher living standards.

More serious, however, is the nationalization of foreign-owned enterprises. The reluctance of western capitalists to invest in the third world has been observed by many and some have even charged that the west is deliberately boycotting the third world. The reason for this reluctance is not hard to find. Investment always entails risk. But in the third world this is often aggravated by the uncertainty of the economic environment. If the investment fails, the speculator loses all or part of his investment. But if it succeeds he is usually subject not only to high taxes but the ever-present possibility of nationalization. The Mexican expropriation of foreign-owned oil holdings in 1938 was neither the first nor the most extensive nationalization. But it does exemplify the attitude of many LDCs. In response to the American demand for "prompt, adequate and effective compensation," the Mexican government stated:

> There is in international law no rule universally accepted in theory nor carried out in practice which makes obligatory the payment of immediate compensation nor even of deferred compensation for expropriations of a general and impersonal character.[9]

Although American holdings were valued at $200 million they eventually received slightly less than $25 million.

Other nationalizations include Russia (where all foreign-owned industrial property was confiscated after the revolution in 1917), Iran, Guatemala, Bolivia, Argentina, Cuba, Peru and Chile.[10] Such nationalizations have cost western capitalists billions of dollars. While the result is windfall gains for the nationalizing country, in the long run it slows development by making access to capital more difficult. The LDCs often complain of high interest rates. What they apparently fail to realize is that their interest rates are high because of a shortage of capital which, in turn, is in large part a result of their policy of nationalization.

To summarize, while there is a tendency for both wage rates and returns to capital to equalize throughout the world, this has been offset in the third world by such factors as the prevailing lifestyle and extensive government intervention.

A Note on Mercantilism

Since the role of government has just been discussed, some mention should be made of mercantilism. Too often being pro-free enterprise is confused with being pro-business. But the two are not identical. Being pro-business usually means advocating policies such as tariffs and licensing restrictions designed to insure profits by insulating businesses from competition. But being pro-free enterprise means opposing institutional restraints on competition. Thus, as Friedman has noted, "Tariffs are anti-free enterprise, yet pro-business."[11] The pro-business system, or mercantilism, is a profit system; the pro-free enterprise system, or capitalism, is a profit *and loss* system. The distinction is fundamental. When individuals are free to go elsewhere, a business can avoid losses only by providing what consumers desire to buy. But when businesses are freed from the threat of competition, this incentive for service is absent. When the possibility of loss is present, profits are earned by serving others; when they are not, profits can be earned at the expense of others.

There are no doubt examples of multinational corporations seeking, and receiving, special privileges from foreign governments. The role of ITT in Chile in the 1970s is one example; that of United Fruit in Guatemala in the 1950s is another. But since poverty is greatest in those LDCs with the fewest western contacts, such cases do not explain the plight of the third world. Nor is it necessary for one who is pro-free enterprise to defend such mercantilist practices. The *Wealth of Nations,* Adam Smith's great treatise on free enterprise, was written, after all, precisely to rebut the mercantilist practices of his day.

The NIEO Evaluated

We are now ready to assess the impact of the NIEO. The measures in the NIEO can be categorized as follows: (a) the transfer of wealth, (b) nationalizations, and (c) the imposition of tariffs. Each will be discussed in turn.

(a) The Transfer of Wealth. It is dubious that the transfer of wealth can improve the position of the LDCs. In fact, it is likely to make them even worse off. Such aid, as is foreign aid now, would no doubt be administered by and through government. This would promote even greater government control over the economic life of the nation. Apart from the serious restrictions on individual freedom that are likely to occur, such a policy would have several other ramifications.

Private investors, risking their own capital, must serve consumers. But a government, especially one receiving aid, is relieved from this economic constraint. This permits public officials to substitute their own individual priorities for those of the marketplace, thereby allowing them to pursue policies that are economically unsound. These include everything from imposing restrictions on the economic activities of productive but unpopular minorities to lining the pockets of themselves and their friends. It also permits officials to divert resources from the satisfaction of consumer demand to use in such capital intensive projects as the construction of steel mills or hydro-electric dams even when either there is no demand for their products or they can be bought much cheaper elsewhere. Although such projects are undertaken in the name of industrialization, they do not contribute to economic growth but are a wasteful drain of the resources of the country. "The availability of resources at little or no cost to the country in question inevitably stimulates monument-building," Friedman notes. "Thus ... foreign aid grants ... lead to a notable increase in the amount of capital devoted to economically wasteful projects."[12]

In addition, wealth transfers have other drawbacks. It is a mistake to regard such aid as a *net* addition to the capital stock of a country. The expansion of government control over the economy reduces "the pressure on the government to maintain an environment favorable to private enterprise." Since this discourages private investment, domestic and foreign, the result could well be a *net reduction* in the amount of capital available.[13]

Finally, it should be noted that by increasing dependency on government, the politicization of economic life created by wealth transfers works to retard the acquisition of those attitudes—thrift, industry, self-reliance—which are necessary for development. None of the western capitalist countries required transfers of wealth for their development and, for the reasons given above, the transfers proposed by the NIEO would probably harm rather than benefit the LDCs. As Bauer has written:

> If all conditions for development other than capital are present, capital will soon be generated locally or will be available . . . from abroad. . . . If, however, the conditions for development are not present, then aid . . . will be necessarily unproductive and therefore ineffective. Thus, if the mainsprings of development are present, material progress will occur even without foreign aid. If they are absent, it will not occur even with aid.[14]

(b) Nationalization. This issue

can be dealt with quickly. We have seen that past nationalizations have retarded development. There is no reason to suppose that their effect in the future will be different simply because they have been termed an "inalienable right" by the NIEO.

(c) Tariffs. The one final issue raised by the NIEO is that of tariffs. The major LDC argument for tariffs is that they would stimulate development by encouraging industrialization.

While tariffs may stimulate industrialization, industrialization should not be confused with development. Industrialization is usually correlated with development because on the free market new technologies are utilized only when they reduce costs by increasing output per unit of input. But such is not the case with tariffs. Manufactured goods that were previously imported because their total cost of production, including transportation, was below that incurred by domestic producers now become, with the tariff, more expensive. The result is the substitution of local for foreign production.

However, as Harry Johnson points out, "the use of protection to promote substitution of local for foreign production does nothing to reduce the comparative disadvantage of local as contrasted with foreign entrepreneurship."[15] For example, since it is often the case, especially in the LDCs, that the domestic market for a particular good is too small to permit exploitation of economies of scale and specialization, the costs of production are inordinately high. Thus, although tariffs may *artificially* stimulate industrialization, this can hardly be viewed as economic advancement. In fact, what has occurred was the shifting of resources from more to less productive uses with the result that *everyone* except perhaps the domestic producers of the good, is less well off.

The Free Market Serves to Overcome Poverty

A common criticism of capitalism is that the businessman is concerned solely with profit. He does not care whether the goods he produces are useful. Nor is he concerned with the well-being of his workers. Production, runs the popular argument, should be for use, not just for profit, and everyone should be guaranteed a living wage. Thus, Indian President Indira Gandhi has recently called for a "new approach to foreign investment" in which in place of the quest for profit, investment would be undertaken on the basis of "service to community." This view, which permeates much of the literature on the LDCs, fails to distinguish between intention and consequence.

It may be true that a businessman

Government in Business

IT IS NOT the business of governments to go into business, and when they do, they do not do it well. Their proneness to display, and their comparative indifference to costs, markets, or innovation, lead them to dissipate the energies of their peoples in spectacular and comparatively unproductive ventures.

Many economically fastidious governments, for ideological or political reasons, mind the business of their citizens to a degree that cuts down energy in both national and international circuits.

The efforts of "welfare" governments, in particular, to protect certain interests and discourage others, often work against the prosperity of both their own and other nations.

HAROLD FLEMING, *States, Contracts and Progress*

cares only about his profit; that he is unconcerned about the use to which his product is put or about the well-being and happiness of the workers he employs. But it does not follow from this that the goods he produces are not useful, or that his workers are underpaid or unhappy. On the contrary. Since people only buy what they intend to use, the distinction between production for profit and for use is fallacious.

In fact, it is the genius of the market process that, Prime Minister Gandhi notwithstanding, profit and "service to community" are correlated: the more efficiently one produces the goods others desire, the more profit one will earn. And since what an entrepreneur can bid for factors—land, labor and capital—is limited by his expected yield from the sale of his product, those who are able to produce the most intensely desired goods at the cheapest price receive the highest return on the sale of their goods. They are therefore able to make the highest bids for the resources they need. Conversely, those who either produce goods that are not highly demanded or who produce intensely demanded goods but at higher costs than their competitors earn smaller returns or even suffer losses and cannot therefore bid as much for factors. In this way factors are channeled from the production of goods which are less intensely demanded by consumers to the production of goods which are more intensely demanded. Thus, while the *intention* of the capitalist is to make profit, the *consequences* of his actions are the most efficient production of those goods most intensely demanded.

Since the free market works to allocate all factors of production to their most value-productive point, any restriction on this process can only reduce the value of what is produced, thereby hurting the great bulk of participants. Wealth transfers, nationalizations and tariffs are clearly just such restrictions. Thus, far from promoting development, the NIEO is likely to perpetuate the stagnation of the LDCs, or even worsen their plight.

The twentieth century has witnessed the continual encroachment on the liberal international order. If spokesmen for the LDCs seriously desire to overcome their poverty, they should not propose further restrictions; they should advocate the repeal of existing ones.

—FOOTNOTES—

[1]In P. T. Bauer and B. S. Yamey, "Against the New Economic Order," *Commentary* (April, 1977), p. 27.

[2]*Ibid.* Also see Kwame Nkrumah, *Neo-Colonialism: The Last Stage of Imperialism* (New York: International Pub., 1965).

[3]The text of the NIEO declaration, adopted May 1, 1974, can be found in Louis Henkin, *et al, International Law* (St. Paul: West Pub., 1980), pp. 695–99. Also see William Cline (ed.), *Policy Alternatives for a New International Economic Order* (New York: Praeger, 1979), and Deekpak Lal, "Behind the North-South Confrontation," and Richard Steade, "Multinational Corporations and the Changing World Economic Order," both in *World Politics, 80/81,* ed. Chau T. Phan (Guilford, Conn.: Dushkin Pub., 1980), pp. 147–49 and 118–23 respectively.

[4]Geoffrey Godsell, "Tomorrow's Big Powers: 'Confucian Work Ethic' Thrusts Small Nations Into Big League," *World Politics, 80/81,* ed. Chau T. Phan (Guilford, Conn.: Dushkin Pub., 1980), p. 161.

[5]See, for example, P. T. Bauer, "Western Guilt and Third World Poverty," *Commentary* (January, 1976), pp. 31–38. For an in-depth and devastating criticism of the neocolonial thesis see Peter Bauer, *Dissent on Development* (Cambridge: Harvard University Press, 1972). Also of interest are Gottfried Haberler, "Terms of Trade and Economic Development," *Economics of Trade and Development,* ed. James Theberge (New York: Wiley, 1968), pp. 328–29; and John Kimball, "The Trade Debate: Patterns of U.S. Trade," *World Politics, 80/81,* ed. Chau T. Phan (Guilford, Conn.: Dushkin Pub., 1980), 104–13.

[6]Ludwig von Mises, *Economic Policy* (South Bend, Ind.: Regnery, 1979), 78–80.

[7]Bert Hoselitz, "The Role of Cities in the Economic Growth of Underdeveloped Countries," *Chicago Essays in Economic Development,* ed. David Wall (Chicago: University of Chicago Press, 1972), pp. 61–67.

[8]Bauer, " Western Guilt," pp.32–33.

[9]In Harold Fleming, *States, Contracts and Progress* (New York: Oceana, 1960), p.60.

[10]*Ibid.*, pp. 9–17; and John Spanier, *Games Nations Play* (New York: Holt, Rinehart and Winston, 1981), pp. 416–17.

[11]Milton Friedman, "Regulatory Schizophrenia," *Newsweek* (June 29, 1981), p.65.

[12]Milton Friedman, "Foreign Economic Aid: Means and Objectives," *Yale Review* (June, 1958), pp. 205–06. Also see Fleming, pp. 78–79; and P. T. Bauer and B. S. Yamey, "East-West/North-South: Peace and Prosperity?," *Commentary* (September, 1980), p. 61.

[13]Friedman, "Foreign Economic Aid," p. 207.

[14]Bauer, *Dissent,* pp. 97–98.

[15]Harry Johnson, "Tariffs and Economic Development: Some Theoretical Issues," *Economics of Trade and Development,* ed. James Theberge (New York: Wiley, 1968), pp. 371–75. For an excellent and readable presentation of the law of comparative advantage see Stephen J. Rosen and Walter Jones, *The Logic of International Relations* (Cambridge: Winthrop, 1980), pp. 344–47. For a more technical presentation see Roy Harrod, *International Economics* (Chicago: University of Chicago Press, 1958).

Teacher in America

Jacques Barzun's *Teacher in America,* now reprinted by the Liberty Press, was first published in 1945. Though I was enormously interested in the subject (I had just finished a three-year stint teaching a class in Graduate School journalism at Dr. Barzun's own Columbia University), I had no time to read it. I was trying to learn the ropes of a new job in Washington.

The book had come just three years too late to help me, which was a misfortune for some of the excellent students (Flora Lewis of the *Times,* Allen Otten of the *Wall Street Journal,* Milton Stewart of the new *Inc.* Magazine, Marguerite Higgins, the only truly great Vietnamese war correspondent, and Nona Balakian of the *Sunday Times Book Review,* to name just a few). I practiced on them, trying to reconcile the fact that I was teaching at a "methods" school, a "trade school," with my rebellious feeling that what journalism students really needed were courses in history, government, literature and economics. The "who, what, where, when" necessities for constructing a lead could be mastered in days, as I had discovered long ago.

If I had read Barzun I would have felt less guilty about trying to get "substance" into the students. His book does not decry "method." The modes of teaching—lecturing, keeping orderly movement going in discussion groups, one-on-one tutorial sessions, written and oral examinations—get a thorough going-over, reaching the eclectic conclusion that emphases in method should depend on the talents of the instructor. It is the perversions of common sense that annoyed Barzun in 1944–45. The Progressives with their "look-say" methods of teaching reading and writing were then riding high. And famous performers such as Phelps and Tinker at Yale and "Copey" at Harvard were being scoffed at as "showmen."

Teacher in America by Jacques Barzun. (Liberty*Press* 7440 N. Shadeland, Indianapolis, Indiana 46250), 502 pages, $9.00 cloth; $4.00 paperback.

It was a time when Bob Hutchins of Chicago University was complaining that nobody read any great books in college. This was not true of Barzun's Columbia. John Erskine, the rediscoverer of Herman Melville and *Moby Dick,* had already started his course in General Honors Readings in the early twenties, using a prepared list of fifty-three great books from Homer to William James. The course had grown (Mark Van Doren and Mortimer Adler also taught it.) The idea spread to St. John's College in Annapolis and to Hutchins' Chicago, where it became rigidified, with all history and science related to sources in "the one hundred best books."

Dr. Barzun thinks this was an "overreach"—"modern culture," he says, "has become specialized and each specialty, even when broadly conceived, requires the direct study of its current output." As a professional historian Barzun doesn't think any six "great books," even when they include Plutarch and Gibbon, can serve as the basis for a coherent idea of modern history. St. John's did, in 1944, supplement the historic classics with readings in later political writers. But Barzun tried to give his students more than that.

The vogue for "testing" and the use of multiple choice examinations filled Barzun with distaste in 1944. The more subtle the student, the more likely he is to cavil at the arbitrariness behind yes-or-no question choices. You can't spot Henry Ford as an ignoramus and historical bumbler because he couldn't assess the difficulties of his "peace ship" expedition. He was an experimenter who, after all, made new industrial history by understanding the shortcomings of the old. He may not have known about the Jews or Wall Street banking. But history has many strands. I remember being made angry when the question, "Was Ford an historical ignoramus?" came up on my son's test during his junior year in high school. I would have flunked the answer. Cynically, Johnny gave the one that was expected of him. His aim was to make college.

The Ph.D. Octopus

Dr. Barzun assailed the "Ph.D. Octopus" back in 1945. The ability to teach, he had observed, did not always coincide with the ability to do Ph.D. research. I had observed this at Yale where Bob French, in love with teaching his own Chaucer course, refused to waste time on what he regarded as Ph.D. nonsense. He didn't want to turn over his exam readings to young instructors while he labored with a supererogatory thesis that would take him away from personal contact with his students. For a period he quit Yale to run a prep school. He eventually returned when Yale needed housemasters who did not necessarily have to have Ph.Ds.

In a new foreword Barzun finds a "great chasm" between the Forties, when teachers wanted to teach, and the present, when commissions and panels and special foundation work leading to big fees are distracting elements. The test of a good academic job is that it leaves one with fewer contacts with campus life. The colleges now recruit from the "waste land" of a "once proud and efficient public school system." They must do their best with the "socially promoted" and the "functional illiterate." The inflationary costs make everything contentious. But Barzun has not given up. "There is no help for it," he says, "we must teach and we must learn."

AMERICA'S CHOICE: TWILIGHT'S LAST GLEAMING OR DAWN'S EARLY LIGHT?

by James R. Evans
(The Fisher Institute, 6350 LBJ Freeway, Suite 183E, Dallas, Texas 75240)
142 pages ■ $11.95 cloth

Reviewed by Edmund A. Opitz

JIM EVANS is a businessman. That's his occupation. His preoccupation is human liberty, and for many years he has worked tirelessly on behalf of the free society-free economy philosophy. He has lectured widely and frequently, he has appeared on radio and television, and now we have his second book. Give us a thousand businessman like Evans, and we'd soon have ten thousand more—and the nation would regain its health.

It may have been The Foundation (FEE) that, years ago, turned Jim Evans on—as he generously says in the book's dedication—but it's his own steam that keeps him going now, working toward a new birth of liberty.

His book is crammed with pertinent factual information, which he buttresses with solid chains of reasoning and striking examples. A most convincing combination. In eighteen concise chapters Evans (a) presents an eloquent statement of our American heritage, (b) explodes the myths back of the anti-free economy stance,

(c) reveals the extent to which we have implemented the ten points of *The Communist Manifesto,* (d) writes an expert critique of majoritarianism—and much more.

This is a citizen's manual of freedom, not merely an exposition of the freedom philosophy. The conscientious reader, hooked on liberty, is bound to ask, "But what can *I* do?" And the book answers with a list of eight things any person can and should do, and ten organizations who can help him do them. The exceptional reader may even become a writer—like Jim Evans—and the American dream will take on new substance.

AFTER REASON

by Arianna Stassinopoulos
(Stein & Day, Scarborough House, Briarcliff Manor, N.Y. 10510)
240 pages ■ $10.00 cloth

Reviewed by Joseph C. Towle

THE erudite and articulate author of this book writes a most persuasive brief for the thesis that our capacity for rational thought is only one of the several faculties of the mind, perhaps not even the most crucial one. That part of the mind which can draw an inference or frame a syllogism is only the upper, conscious, layer of the mind, sustained by layer upon layer below. Reason dissects and analyzes external realities; it orders sense experience; it arrives at conclusions and tempers judgment. Reason is our only route to some truths, and it is a tool of survival. But reason has allies in the deeper layers of the mind, the seat of intuition, imagination, and poetic creativity. At these levels occurs the subconscious recording of individual experience and that of the race, and the perception of metaphor in spiritual reality—mental functions which play an important role in aligning the individual with his life's meaning and purpose. It is not reasonable to depend on reason alone, for this limits or denies entry to other essential mental functions.

In the book's opening paragraph Miss Stassinopoulos declares that "the individual . . . has been searching more and more urgently for a spiritual path out of the closing trap." She might have said, in somewhat different terms, that modern life has become ugly in many ways because the human spirit no longer has space to exist, much less a climate for growth. The great Greek dramatists convey the same truth. The lesson of Euripides, Philip Vellacott his translator tells us, "is that civilized men ignore at their peril the world of instinct, emotion and irrational experience."

Against Utopianism, a product of sterile, formulated reason, just how does the unscholarly, perhaps inarticulate working man define and defend his rough but real spiritualness, his need to transcend daily toil and worry, and his almost palpable sense of the reality of his inner life? The glib, smooth rationalists, gnostics, planners, social "scientists," educators, politicians—the intellectual elite, mostly spiritual dropouts—all would make rhetorical hash of what he knows he needs to make his life go tolerably.

They would cheapen and ridicule his spirit, the lore and wisdom of his fathers, and the symbols he depends upon to bear him up in often hostile surroundings and dark days.

Miss Stassinopoulos brings sure understanding to the problem in clear, well documented prose, free of the jargon and sophistries so beloved of our intellectual masters. In her thorough, though occasionally repetitive inquiry she strongly attacks the hubris and mendacity of the New Class—especially the "progressive" academy, clergy and politicians—and their specious and fraudulent schemes to rescue every man and all men from their own actions. This is to be done first by discrediting their inherited wisdom and spiritual values and then by re-engineering the abstraction called society—faceless men and women. The New Class never bothers to define "society," which in fact does not exist as an entity. In reality, there are endless numbers of vastly different individuals each with his unique, disparate qualities, which make him go, do and live like no other.

After Reason is a sort of primer for the men and women who haven't the luxury of much time for reading and reflecting, but who know that things are not going well and are not sure just why. To the farmer, businessman, shopkeeper, laborer and their fellows, Miss Stassinopoulos lends a strong guiding hand through the cleverly constructed maze of perplexities and obstacles to reality so grandly and condescendingly presented by the sycophants, sophists and other engineers of our spiritual, intellectual and moral decline.

Here is a searching, honest and heartening work by a woman of exceptional gifts. She will be heard again—and not too soon for this reviewer.

THE TAX-EXEMPT FOUNDATIONS
by William McIlhany, II
(Arlington House, 333 Post Road West, Westport, Connecticut 06880)
302 pages ■ $20.00 cloth

Reviewed by Tommy W. Rogers

THIS STUDY explores the degree to which the major tax-exempt foundations have advocated, propagandized for, and mobilized opinion on behalf of statism and collectivism in the areas of education, health policy, and public welfare. It reviews the various congressional investigations of foundations from 1912 to 1969, and it specifically examines the major foundations (Carnegie, Rockefeller, and Ford), as well as the smaller activist foundations, such as The Twentieth Century Fund, the Field Foundation, and the Stern Fund. McIlhany has sifted through the publications of those foundations, he has weighed the activities promoted by them, and he has had extensive interviews with those in charge.

McIlhany's research corroborates the suspicion that tax-exempt foundations are "promoting, almost exclusively, socialism at home and world government abroad, and doing so at taxpayers' expense." These ideological goals are consistently of a coercive and anti-free market nature, "controversial at best and destructive of the entire social system which originally produced the funding wealth at its worst."

The author's philosophical persuasion is libertarian and Austrian. He advocates a laissez-faire economy in which government would be limited to the provision of local criminal justice and national defense, all other products and services being offered on the free market. He does not think "it is unreasonable to suppose that under such a system individuals would voluntarily pay the state for its two functions since they would not be forced to pay for anything else." And, as he notes, "in a free economy all problems relevant to tax-exempt foundations would disappear, except instances of criminal conduct punishable under other laws. All charities could function as competing, profit-making companies, offering some investment return to their contributors, or they might compete solely on the basis of their beneficent accomplishments." Such, he writes, is the ideal form of public accountability.

Meanwhile, foundation promotion of statist orthodoxy must be challenged "if we are to be able to create sufficient public understanding to prevent the foundations from destroying what remains of the system that made possible the creation of accumulated wealth which sustains them." McIlhany has accomplished a major step toward that public understanding. He has produced an excellently researched, substantively documented, analysis of the impact of the tax-exempt foundations. This book is definitely worth reading, including the footnotes.