

the Freeman

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the Freeman

A MONTHLY JOURNAL OF IDEAS ON LIBERTY

FOUNDATION FOR ECONOMIC EDUCATION

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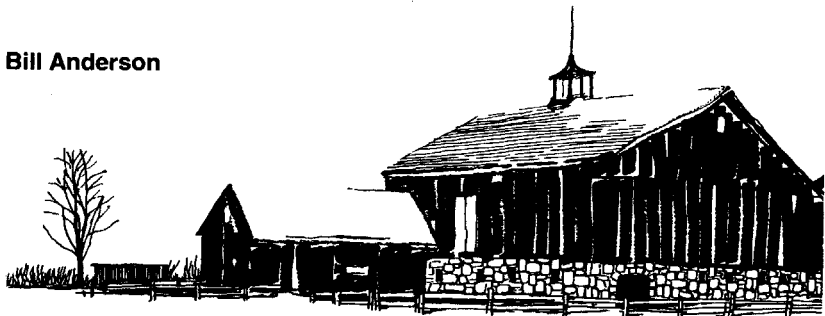
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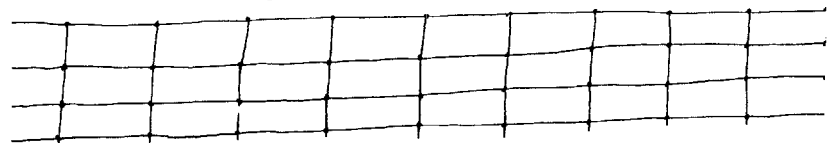
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Bill Anderson



The Myth of Self-Reliance



I received a most appealing magazine in the mail the other day, a publication full of pictures of a good life that could be mine if only I would try to be more self-reliant. There were attractive log cabins with rustic, spacious interiors, lush greenhouses that produce fresh vegetables in the dead of winter, solar panels that will heat my home at a much lower cost than our local utility, and tips on living better with less dependency on automobiles and other such evils of modern technology.

The message was clear: by being dependent on the labor and productivity of others, we have lost our sources of independence; we are not truly free and, indeed, have en-

slaved ourselves in a technological society that can only demand more, more, more. There was even an editorial to that effect:

“Before 1776 we were less than free as a country, but Americans were independent in a personal sense. Most people then built their own homes, grew their own food, made their furniture and clothes, and even bred their own horses for transportation. True, life was much harder than now. But the support systems were within reach of almost everyone, and were subject to individual control. People ‘paid’ for much of what they used with their own effort. Almost all the raw materials were renewable. Our material culture was sustainable, and America could be cut off from the rest of the world without the creation of much

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suffering or hardship . . . What can be done about our growing dependence in these modern times?"²¹

In one sense, that writer is correct. After all, it is to our advantage to be competent in many areas. It makes better sense for me to change a fuse than to pay an electrician \$16 to do the same thing; it might be wise for me to know how to operate a fire extinguisher so should a fire ever break out in my house, I can quickly put it out rather than wait 15 minutes until the fire department arrives to salvage what is left of the structure.

This fall I am riding my bicycle to work on occasions both to save gasoline (but not time) and to get exercise that has been sorely lacking in the last year. Last summer I worked hard to nurture a very productive garden and at the present time I am constructing a small solar panel with aluminum cans and scrap materials. In fact, a visitor in our home might well assume, after observing my wife and me at work, that we do subscribe at least in part to a self-sufficient lifestyle. Nothing could be further from the truth.

The Myth of Self-Sufficiency

The self-sufficient lifestyle is a myth, and even if it were possible in this age, or was possible at any time in history, it is socially undesirable. The self-sufficient lifestyle is impossible to live because all of us are de-

pendent upon the productivity of others and those who might choose to live entirely by their own hand do so at the high cost of poverty and misery to themselves.

There was a time in history when communities were, on the whole, relatively self-sufficient. The farmers grew all the community's food near the towns, blacksmiths forged tools and weapons in their grimy shops, the townspeople's clothing was made from wool and flax produced locally, and the community's safety was in the hands of the local nobleman. In case the readers have not figured out the time period, it was the Dark Ages when the world's most developed people, the Europeans, lived in squalor, semi-starvation and under constant threat of attack by the armies of rival noblemen—poverty and misery.

Most persons advocating the self-sufficient lifestyle will quickly reject any accusation that says they are advocating a form of feudalism. After all, most of them are self-proclaimed pacifists (no warring on neighboring villages permitted) who claim they simply wish to live in peace and live their lives without interference from hostile outside forces. But we still have not answered the basic question: Is the self-sufficient lifestyle possible and, if so, is it desirable?

Even in the tightly-knit feudal communities there was a need for

cooperation rather than self-sufficiency. The nobleman was dependent upon the productivity of the serf for his food; the serf was dependent upon the blacksmith for the tools (capital) that would enable him to grow enough food to keep the persons in the community alive for another year; and all were dependent upon the intelligence and leadership of the nobleman who had to keep rival armies from sacking the towns and destroying the crops. In this sense, individuals were not self-sufficient, but the combination of their productivity enabled most members of the community to eke out a marginal existence.

In reference to the aforementioned editorial, it might be good to compare the lifestyle of the American pioneers to that of the Europeans of feudal communities, and also to see just how desirable the pioneering life was in contrast to our present existence in this country. First, the pioneers had the advantage of firearms (made by other craftsmen) which were more effective in protecting their homes and settlement villages than the arrows and lances of the Middle Ages, and also provided an effective tool for hunting. But, like that of their ancestors of Medieval Europe, their life was a harsh one. "Most of them traveled on foot, their possessions on their backs, in wheelbarrows, or saddled to a few scrawny cows that

had been transformed into beasts of burden. Travelers from abroad noted the characteristic bluish complexion of these settlers, many of whom suffered from forest fever, milk sickness, and especially the swamp-bred ague (malaria)."²

Improved Standards of Living Through Specialization and Trade

It is true that many pioneers directly produced their items of necessities, but their lives also reflected the harshness of that kind of lifestyle. Their children did not attend school, but instead worked in the fields alongside their parents. Death by disease was high and infant mortality common. Alone in the woods, they were often easy prey for warring bands of Indians and outlaws. However, as more and more people pushed west, the pioneers became less isolated, banded together in villages, became more dependent upon each other for their goods and, as a result, improved their standard of living.

But, as the editorial writer might argue, at least the early pioneers were self-sufficient and had more control over their own destiny. To say that, however, one must assume that vulnerability to hostile raiders, the ever-present reality of mortal diseases, and the back-breaking labor needed to survive the wilds is somehow more desirable than our present status, dependent as we may

be on the productive efforts of others.

As for the self-sufficiency of America as a whole, one must look at the results of the Embargo Act of 1807 to see just how well the people of this nation lived when deprived of foreign goods.

"The Embargo Act meant ruin, not to Britain and Europe (the intended targets of President Thomas Jefferson), but to American commerce and American ports. In spite of the losses caused by the European wars, between 1803 and 1807 American exports had grown from \$55 million to \$108 million. By 1808, they had dwindled to the little that could be smuggled out of the country. In New York, as one traveler reported, 'the grass had begun to grow upon the wharves.' Industries associated with commerce, such as shipbuilding and sailmaking, were also at a standstill, their artisans unemployed."³

Progress Regained After Repeal of the Embargo Act

It took little more than a year before America's experiment in consuming only what was produced within its own borders was junked for the more preferable "growing dependence" on producers of other nations. It was as though the American political leadership had finally regained its sanity and once again took heed to what Adam Smith in

The Wealth of Nations had told them 32 years earlier:

"It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor. . . . What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom."

This passage is used mainly in defense of free trade between nations, but it is also vital for the individual as well. For example, my car needs major repairs before winter. Now, I can either attempt to repair it myself or take it to a mechanic. If I try to fix it myself, I must first buy some specialty tools in addition to the tools I already own. I must then purchase all the new parts, then put my talent and experience together into one less-than-magnificent effort as I try to do something I have never done before. Of course, I know enough about my car to be able to complete the job without being forced to have it towed to the junkheap, but the total cost of my effort, tools plus parts plus time plus high blood pressure, would be far greater than the expense I would incur by simply taking it to a mechanic I trust and leaving it with him for a couple days. In this case, my attempts at self-suffi-

ciency would be far more costly than dependency upon a knowledgeable mechanic.

But even if I could repair my car at a lower cost than I would pay for a repairman, in reality I still would not be self-sufficient. After all, I would be dependent upon the automakers for the spare parts, toolmakers for my tools, and writers and publishers for the repair manual. In other words, I would be dependent upon the voluntary cooperation of the thousands of persons who had a hand in making all those products in the same way the rugged, independent backwoodsmen were dependent upon the skilled craftsmen who made their accurate rifles.

For Survival and Comfort

The truth is, no matter how much anyone talks about self-reliance, interdependence is still necessary for, first, our survival, and second, any comforts we collect. We are told that if we ride bicycles, then we won't be dependent on either the automakers or the Arabs who provide us with much of our oil. That may be true in one sense, but that view is extremely short-sighted. My 10-speed bike was made in Italy, which means that if I am to be personally independent of the automobile and its producers, I must now be dependent upon the competence of an Italian bikemaker. I am also dependent upon the skill of the ship captain who

brings that bike across the ocean (on a vessel powered by Arab oil) and upon the good driving habits of the trucker who brings the product to the retail shop (on a truck powered by high-priced diesel fuel).

If my solar heating panel succeeds in lowering my utility bill, I will still have to depend upon the Tennessee Valley Authority to provide me with at least some of my electricity, but I will then be dependent upon the aluminum cans produced by the nearby Alcoa plant—which draws its electricity from the same source as I do. Neither does my productive garden make me a self-reliant person. True, I may not spend as much money at the grocery store as I once did, but my dependency is now shifted to the makers of rototillers and garden tools and fertilizer.

I am dependent upon the oak and maple trees in my yard to provide me with the leaves needed for a good garden mulch. I am also dependent upon the oil companies for the gasoline to power my tiller and my utility to provide electricity to run the deep freezer in which I store most of our produce. If I attach a windmill to my shed that will produce my electricity in windy weather, I am then dependent upon the skill of the maker of that windmill, along with being reliant upon the changes in the atmosphere that will produce the needed wind.

I can take another course of ac-

tion. I can unhook my electric, water and telephone lines, put my car and truck in mothballs, use pointed sticks as garden tools, wear oak leaves and animal skins, and go hungry six months of the year. At that point, I might be reasonably self-reliant upon my primitive wits, but I can't say much for my cave-man quality of life, nor would my neighbors give much support for my noble experiment.

Hidden Costs

What is ironic about this situation is that to live a reasonably self-reliant life, one must work much harder and do with much less than one who allows himself to be dependent upon the efforts and capital of others. If I ride a bike to work, I must also pay part of my cost in time and convenience. When I work in the garden, I am unable to spend as much time pursuing other productive ends. Of course, riding a bike or working eight hours under a broiling sun in my garden is a personal choice I make freely, but I make those choices without being under the illusion that somehow I am paying less for them.

Besides helping provide a better life for all, interdependence has another saving feature: it promotes cooperation between people, even people who might hate one another. For example, relations between the United States and Libya are pres-

ently near the boiling point, but even while the heads of state of the two governments are trading charges and countercharges, U.S. oil tankers line up in the Tripoli harbor each day to draw Libyan oil. The oil helps run the productive U.S. economy, while money paid for the crude enables Libyans to buy foreign goods that previously have not been available to them.

Seeds of War

It is noteworthy that people who urge national self-sufficiency do so because they fear what might happen to the lines of trade if a war breaks out. Yet, one of the reasons a nation will risk war is that it believes it can do so without chancing a collapse of its economic structures. Before Hitler's Panzer divisions invaded Poland and later France, the German dictator made reasonably sure by his earlier "nonviolent" conquests of the Rhineland, Austria and Czechoslovakia that his nation was self-sufficient in production of food and war goods. In the same way, Mao Tse-tung tried to insure China's self-sufficiency (at horrendous cost to the Chinese) not so much for national pride as for making sure China could withstand attack by the Soviet Union.

In both cases, the economic self-reliance of these nations was achieved not through freedom but rather through coercion that re-

quired a choice between complete obedience or death. One nation eventually helped plunge an entire world into a destructive war, while another seeks to reverse the damages inflicted upon it by more than 30 years of a communist system. The end results in both cases have been far different than were planned by the political leaders, and are certainly not the results that most people would desire if left to their own free choice.

And if interdependency builds cooperation between nations, it obviously does the same for individuals. Two workers on the assembly line at our local stove plant may not like each other, but both will cooperate in the building of a new stove, since both will benefit in the form of

wages, while consumers benefit as well, since they can acquire new wealth in the form of stoves.

Contrary to the preachings of the "small is beautiful," "self-reliant" set, interdependency and a complex division of labor will promote freedom, cooperation, and a better, safer life for all. Those who attempt to circumvent this interlocking web will do so at the cost of freedom, and at the same time will promote conflict rather than peace. ☉

—FOOTNOTES—

¹Robert Rodale, "What's In A Name?" *Rodale's New Shelter*, July/August, 1981, p. 6.

²Richard Hofstadter, *The United States* (New York, 1966), p. 246.

³Hofstadter, p. 209.

Free Trade or Protection?

Which is best for America, free trade or protection? The question might be rephrased more broadly: Which is best for America, freedom or compulsion? For in the act of protection lies the act of compulsion. Under protection consumers are no longer free; their choice is denied. Economic democracy breaks down; the rule of the few decides. To buy the foreign product consumers are compelled to pay a penalty, being forced in effect to do business with a high-cost domestic producer. As a result, the consumer pays more and gets less. The resources of the economy are prevented from flowing into the most productive industries; instead, much of the nation's resources are locked in inefficient, high-cost, protected industries. With the exception of the protected investors and managements, everyone loses.

IDEAS ON



LIBERTY

Contraction of State Must Be Common Goal

MORE than a century ago, Frederic Bastiat described the state as “that great fictitious entity by which everyone seeks to live at the expense of everyone else.” The illusion haunts the modern state today. In country after country governments have dug themselves into pits from which they seek to escape by dragging the rest of society down. Yet they got there with good intentions.

There is an attraction to doing good with other people’s money that is very seductive. Men and women are drawn to politics by a desire to improve the lot of their fellows. If they choose to do so without reaching into their own pockets, who shall blame them? The welfare state

makes philanthropists of us all.

Unfortunately it seduces us also with a belief that the state, which the citizens concocted to serve such common needs as for roads and lighthouses and police, and to which common purpose they contributed through taxes, has money of its own.

It is in this, in the changed perception from a man-made convenience to an independent organism, that we were led astray. Imputing to the state the abilities that only man possesses—to invent, to produce and to innovate—we have imputed to it also the ability that flows from them: to create wealth.

Thus when political leaders promise to do this for us, or to do that, we look gratefully upon them for their munificence, as if the wherewithal to do those things were somehow

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plucked from the air. Forgetting that it must be plucked from us, we have forgotten that the contributions which we are now obliged to make were made at one time by an agreement which is no longer sought.

Having accepted that we shall be taxed, we have accepted that the proceeds will be spent, not merely upon roads and lighthouses and police, which serve us all, but upon a multitude of things which serve only some of us: in youth education; in age pensions; in between almost everything from failing companies at home to failing countries abroad.

As if to excuse the changed perception, our leaders explain that the state's apparatus has become very complex, as indeed it has. But the complexity is man-made too, made by the state's functionaries taking on more than they can handle.

Here we find a change from the good intentions to the compulsions of politics, from the common services that are necessary for all to the particular services that are desirable only for some.

"We have done such and such for this group. How can we deny the claims of that?" It is not long before those reflections are magnified into endeavors of the functionaries themselves. "We have regulated this. Why should we not regulate that? We have established a state corporation to do this. Why should we not establish another, and another?"

Having established them, why should we not put some of our own people in charge of them, or some others from the world of politics in which we have come to move so easily?"

Missing from the reflections is any sense of participation by the great mass of citizens who in the end must pay the price. Whether from the taxes that are paid or deducted, or from lending to the state through bond and other instruments that lose value every minute, or from the tax of inflation that results from the functionaries' excesses, the ever-growing bill is paid by the citizens.

Never are they given a choice. Never, for example, are grants of their money put to them in terms they can understand, as in, say, to the citizens of Ourtown: "We are going to set up this industrial park in Anothertown and we're going to take some money from you to pay for it. Is that OK?" Or, say, to the citizens of Anytown: "We are going to set up a pulp and paper facility in Transutopia and we're going to take some money from you to pay for it. Any objection?"

William B. Stout, principal designer of the Ford Tri-Motor airplane, used to advise aircraft designers to "simplicate and add more lightness." It is good advice for politicians today, but how are they to follow it?

As they know too well, any attempt to reduce the expenditures of

one department will be contested vehemently by that department's clients: Agriculture, farmers; Consumer Affairs, consumer associations; Regional Development, every region within hailing distance of the capital; and so on and so on. In short, their profligacy in the matter of promises to particular kinds of electors has come to haunt them: everyone has been promised something and no one will withdraw the claim.

The device that was concocted to serve common needs has puffed it-

self up into a multitude of state corporations and departments of state, many of which are duplicated in subordinate jurisdictions. Shrinking it is a task beyond the powers of a few; it must be undertaken by all.

Just as the state grew from a common need, so must its contraction be made a common purpose. Through inflation, all are suffering now. If the expenditures of all the departments were cut, all would endure the illusion of suffering for a time, but how could any complain? ☉

Adherence to Principle

It is only in the moral realm that socialism's antagonists—freedom's devotees—can find any common ground for concerted or unified effort. Where we can make no impression at all over the personal loss of 30 cents, or any multiplication of small change, we can win agreement on the point that there is no difference in principle between the forcible extortion of 30 cents and the forcible extortion of one million dollars. One is misappropriation as well as the other. The distinction is one of degree, not of kind. To violate the principle, even minutely, is to compromise the amount but not the principle. The principle is surrendered, regardless of amount. To forswear allegiance to honesty and integrity—the principle here at issue—is to destroy the moral underpinnings without which no good society can endure. . . .

Moral standards for individuals, fairly well established by all the world's moral and ethical systems, find no reasonable sanction for modification by individuals acting concertedly, whether organized as governments or labor unions or trade associations. No new rights come into existence by collectivizing two persons or a million of them.

IDEAS ON



LIBERTY



THE BENEFITS OF SPECULATION

WHENEVER housing prices rise we hear a chorus of complaints blaming the speculator. Speculators have always been vilified for high and rising prices.

This view is incorrect. In fact, the opposite is true: speculation holds the rise of prices to less than would have prevailed without it. To see this clearly, let us consider the uncontroversial example of "widgets." Then, having established the basic principles for the classic case, we can apply them to the special and more sensitive issue of land and housing prices.

Suppose that in the absence of speculation, the future supply of widgets is as in the Biblical story: seven fat years followed by seven lean. Given similar demand in the

two periods, the years of ample supply would result in low prices and the era of short supply in high prices.

Enter the speculator. What will he do? He will try to buy when prices are low and sell when they are high. His initial purchases will, to be sure, raise prices above the low levels that would otherwise obtain in the first period, as his additional speculative demand is now added to the demand to buy widgets for consumption purposes. But his subsequent sales will reduce prices from the high levels that would prevail, apart from his efforts, in the second time interval. This is because speculative sales, when added to other sales, must depress prices further than all other sales would have done by themselves.

The speculator will be seen by people to be selling at high prices in years 8 to 14. People will thus blame

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him for these escalated prices, even though prices would have been still higher in his absence.

But the speculator does far more than merely iron out prices over time. By dampening price oscillations, he accomplishes something of crucial importance: the stockpiling of widgets during the years of plenty, when they are least needed, and the dissipation of the widget inventory during times of shortage, when they are most useful.

Furthermore, the speculator's actions in the market signal to all other businessmen that an era of short supply is expected in the future. His present purchases raise widget prices, and hence the profitability of producing them now. This encourages others to do so before the lean years strike. The speculator is the Distant Early Warning System of the economy.

But, as in the days of yore when the bearers of ill tidings were put to death for their pains, modern day messengers—the speculators—are blamed for the bad news they bring. There is talk of prohibiting their activities outright, or of taxing their gains at 100 per cent confiscatory rates. Such moves, however, deprive society of the beneficial effects of speculation.

There is only one possible fly in the ointment. If the speculator guesses incorrectly and see years of plenty ahead when belt tightening

is really in store for the economy, chaos can result. Instead of stabilizing prices and supplies of widgets, the speculator will destabilize them; instead of hoarding during the fat years and reducing inventories during famines—and leading others to do so as well—he will encourage needless saving under adversity and wasteful profligacy in good times.

The Market Guards Against Unlimited Profit or Loss

The market, however, has a fail-safe mechanism to prevent just this sort of disaster. The speculator who guesses wrong will buy high and sell low—and incur losses, not profits. If he continues to err, he will go bankrupt, and usually very quickly. Professional speculators who have survived this rigorous market test of profit and loss can be relied upon to forecast the future with far greater accuracy than any other conceivable group, including bureaucrats, politicians, marketing boards or swamis.

Now let us consider the effect of speculation on land and housing prices.

As in the case of widgets, the speculator is observed to be selling at high prices, to be holding land off the market until yet higher prices are reached. But if we carefully trace out the effects of such activities, we can see that the only time the speculator could have raised prices is when he *buys*—and that he bought

when prices were low, before the increase in demand. We can likewise see that the only result of speculative sales is to *decrease* prices. No matter how expensive the level at which the sales take place, prices would have been higher still in the absence of this additional land and housing supply.

The speculator can function as a distant early warning line in this market as well. His initial housing purchases can encourage the construction of additional housing: at higher home prices, more profits can be earned in building, lumber, cement, wiring and so on. By definition, additional land cannot be created (barring reclamation from the sea, as in the case of Holland) but space can be converted to housing from other uses, such as farming and industry.

Now let us consider several objections to the view that the speculator makes a positive contribution to the public good.

1. *But the speculator's initial purchases start the upward price cycle even in the "fat years."* Of course the speculator's initial purchases start the upward price movement during the "fat" years, when prices are low (and decreases prices when he sells during the "lean" years, during the time that prices are high). This is precisely the main effect of speculation: to dampen down the price oscil-

lations, or cycles, that would otherwise prevail in its absence. Decreasing price variation must inevitably imply raising low prices, while decreasing high ones. To blame the speculator for this is like blaming apple pie for tasting so good. That's the whole point of the enterprise.

2. *If the speculator hadn't scooped up the housing at that early point in the cycle and held on to it, exactly the same amount of housing would already have been available when the lean years arrived.* This objection ignores the point, made above, that the speculator serves as a sort of Distant Early Warning System. By making his initial purchases during the "fat" years, when prices are low, the professional speculator may well encourage imitators. These people may want to "ride along" with the speculator, and earn profits by adding to the housing stock.

Moreover, there is another reason for dismissing the claim that "exactly the same amount of housing would be available." The speculator, it must be remembered, is by assumption one of the few people who foresees the lean years ahead. Surely we may expect more housing to be saved (through better upkeep, maintenance, more investments in repairs, upgrading) by people such as the speculators, who expect housing to sell at a premium in the near future, than by people who do not.

3. *When the speculator finally sells, during the "lean" years, he will sell at homeowner prices instead of speculator prices—it being given that speculators can usually hold out for their desired price longer than homeowners who need to sell quickly.* If any proposition is more likely, it is the very opposite. For the speculator is more likely to be a person with his eye strictly out for the "main chance." Who has ever heard of a speculator sitting on a piece of land and refusing to sell for any price, because the house on top of it "was in the family for years" and has "sentimental value"? In land sales homeowners can usually hold out for longer time periods than speculators, who are ever on the search for yet another profit opportunity, and unwilling to keep their funds tied up in any one venture for a long time.

4. *The speculator keeps land idle. This is wasteful, and deprives the economy of a much needed impetus.* We can answer this objection in several ways. On a somewhat superficial level, it (usually) exposes the inconsistency of the person who makes it. For most people who oppose speculation also favor conservation. But idle land is by definition land being conserved. If a person favors conservation, and thinks that speculation keeps land "idle," he cannot logically oppose speculation.

On a more fundamental level is the fact that land speculation serves several useful social functions.

The Functions of Speculation

First of all, speculation in an unhampered market tends to put land into the hands of the most capable property developers. Many people do not realize that property development requires a great amount of ability. They feel, somehow, that it is only a matter of renting (or selling) to the highest bidder.

Even were that the case, land development would still be a task calling for a great degree of skill. How else can we account for the economic importance of auctioneers and brokers of all kinds, whose "only" job is to ensure that sales are indeed made to the highest bidder (and that all bids are as high as possible in the first place)? How else to account for the graft, corruption and otherwise poor records attained by city governments which have taken upon themselves the responsibilities of "contracting out" municipal services to private firms (in this case, trying to ascertain the low bidder)?

But real property development calls for far more than the ability to rent or sell to the highest bidder. Right at the offset is the choice between renting and selling. If renting is decided upon, there are an indefinitely large number of alternatives, including duration of the lease, se-

curity, financial terms, services provided, and so on. A wrong decision in any of these dimensions can lead to lower profits through an inefficient use of property.

Land is valuable not only for what value it can create in the present but for what may be accomplished with it in the future. Prescience is denied mankind, at least this side of heaven. Therefore, the best future use of idle land is never known for sure. (Does anyone believe that present settlement and building patterns would have been as they now are had we somehow been able to know what the economic conditions of 1981 were to be like 10, 30, or 50 years ago?)

This is the reason speculators oftentimes keep their land "idle": they do not as yet perceive the future course of events as clearly as they think they someday might. They forgo the present rents they might otherwise have obtained, in the opinion that the gains to be made by being flexible (keeping land idle and unencumbered) are likely to be higher than those alternatives. The speculator, in other words, fears that a better use for this land might make itself known later, right after he commits it to a poorer use; and that the cost of clearing up this mistake (demolishing a building, buying out a tenant's lease) might be greater than the additional rents he could have collected from the better use. In

weighing these alternatives, the speculator attempts to determine the most valuable use the members of society place on his land.

An Optimal Building Rate


Do the opponents of speculation really wish *no* land to be "idle," for these precautionary purposes? If so, they cannot be motivated by a desire to satisfy consumer sovereignty. For there is an optimal building rate over time—that is, an optimal rate at which land is withdrawn from "precautionary balances"—deviations from which can reduce welfare. This rate is determined by consumer (and landowner) preferences, by interest and time-preference rates, by the prices of substitute and complementary factors of production, and so on. Perhaps in some conceivable circumstances this optimum rate might call for the immediate discontinuation of all "idle" land, as desired by the opponents of speculation. But even under these circumstances, speculators would themselves be led "as if by an invisible hand" to sharply reduce "idle" balances of land. Thus, there would be no need to oppose the operation of the unhampered marketplace even in these circumstances.

Let us close with the observation that speculation is very much more widespread than its opponents seem to realize. Not limited to land, speculation certainly applies to other or-

ganized markets such as stocks, commodities, currencies, metals and so on. But this is just the tip of the iceberg.

Speculation occurs even in the most ordinary of transactions. Every time the housewife goes grocery shopping she is speculating. If prices are falling, she might have been better off to defer her purchases; if they are rising, she might have done well to buy twice as much. Every time the worker upgrades his skills, he is speculating that the value of

the additional wages he may earn as a result will be greater than the value to him of dollar expenditures, efforts and psychic costs he expended in obtaining the new training. Every time a child buys a toy he is speculating that he won't see another toy he likes still more—after the money is gone.

We may even say that speculation is at the very core of human action. The opposition to speculation, then, is at root an opposition to human freedom. 

The Speculator's Role

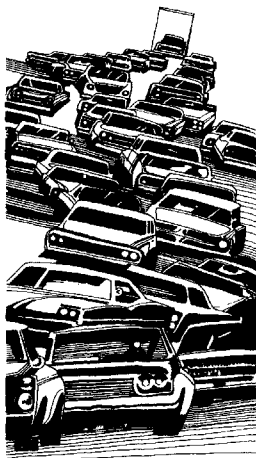
IN POPULAR THINKING, the speculator is a bold, bad man who makes money at the expense of others. Many people believe he gains his livelihood by luck, gambling, or inside manipulation. There are, of course, a few dishonest speculators who lie and cheat, as do some in all occupations, but the honest speculator is a serious specialist who serves mankind. He constantly strives to obtain a better understanding of future market conditions. He then places this better understanding at the service of all interested parties. Whenever his predictions are wrong, it is he who loses. When he is right, he and everyone who trades with him benefit. For if they did not expect to benefit, they would not trade with him.

The service of a speculator is to smooth out some of the gaps between supply and demand and some of the extreme ups and downs in prices. He tries to buy when and where a commodity is plentiful and the price is low and to sell when and where the commodity is in short supply and the price is high. When he does this wisely and successfully, he tends to raise extremely low prices and reduce extremely high prices.

IDEAS ON



LIBERTY



THE ROAD TO RUIN

In our private lives it seems that crises are relatively rare events brought on by extreme circumstances and unforeseen situations. In the realm of public policy, however, crises seem to be the norm rather than the exception. We have international crises, domestic crises, monetary crises, fiscal crises, energy crises, crises of confidence, *ad nauseam*. The government apparently has the capacity to turn the most prosaic and mundane circumstances into crises.

The "crisis" of the '80s will be the need to rebuild America and make her great again. Dire consequences are predicted if we fail to meet this challenge. A subsidiary "crisis" to the more general need to rebuild

America is a "public sector in ruins." Within the public sector, few things are as threatened with ruination as our highway system. In state after state, the cry has gone out that our roads are crumbling, that without drastic action (a doubling or tripling of taxes) we won't be able to get from here to there. Our economy will collapse and savagery ensue.

Why has the highway finance issue reached a crisis stage? Examination of the nature of the highway product and how the government has sought to provide it will reveal a classic example of public sector failure. The tragedy is that the failure was foreseeable and predicted by many critics of government waste and mismanagement.

We will be able to make more sense of the issues in highway financing if

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we realize that highways are investments. The decision to build a highway will have consequences very similar in nature to the decision to build any other capital facility. To insist, as some do, that since highways are publicly owned they are exempt from normal investment decision criteria will be destructive to the general welfare.

Regardless of whether a facility is owned and operated as a public or private undertaking, the economic law of scarcity still applies. This law of scarcity is a common-sense recognition of the finite nature of our existence. In the final analysis, there is only a limited amount of *time* available to us to devote to efforts aimed at serving a multitude of needs. Time consumed in acquiring or manufacturing the resources to serve a portion of our needs is not available to spend in efforts to serve other needs.

Recognition of this finite limit is important if we are to rationally manage our time and effort. Of necessity, any one need or problem cannot be considered in isolation from all other needs or problems. This might appear to make for an unwieldy mess, since it is unlikely that any one person or group of persons could conceivably consider all needs or problems simultaneously. Fortunately, society has evolved the market institutions that serve to calculate the best uses of scarce re-

sources for the constantly changing needs and problems of a diverse world.

The Function of Prices

The price system of the marketplace yields us a "best estimate" of the current and future values of various resources in meeting human needs. This price system applies both to the commodities that might be employed in implementing our plans to meet our needs and to the capital required to purchase the commodities. By comparing the prices we must pay with the revenues we anticipate from our planned investments, we can determine whether what we intend to do is financially feasible. Inasmuch as the price system is a reflection of a continuous stream of voluntary choices, reliance upon its verdicts will also produce investments which are socially desirable.

Unfortunately, utilization of the market and its price system has not been well developed in the public sector. Past decisions in public highway construction were made on the basis of other factors. The result has been the creation of a roadway infrastructure which is becoming increasingly out of balance with the means to finance it. We cannot just build all that highway officials say we must build without massive increases in the amount of resources consumed by this activity. Our needs

for roadways must compete with a multiplicity of needs for every sort of good or service. To devote resources to highway construction will mean, of necessity, that these resources cannot be devoted to other uses. In order to employ resources for the maximum benefit, it is necessary to determine how highways compare with other investments in terms of the benefits produced.

The cost of errors in the expenditure of resources on highway facilities is considerable. Once time, effort, and money have been converted into a roadway, they are irretrievable. Decisions on highway construction are cast in concrete. This irretrievability factor raises the risk of highway investment. Roads which do not return as much in value as they cost to build and maintain cause total economic output to decline.

The long-term effects of lower economic output are reduced welfare throughout society. There would be fewer employment opportunities, more poverty (as well as the social ills associated with poverty), fewer resources available to meet other human needs in the areas of health, housing, education, and the like, including other transportation needs.

Measuring the Value of Public Investment

It is not enough to assert that roads are "essential" to a community's well-being. A lot of things are "essential"

to this well-being. How are we to allocate scarce resources between competing "essential" goods or services? Given that wants are virtually unlimited, it is obvious that there won't be enough resources to satisfy all demands. Consequently, society will be forced to choose which wants go unfulfilled.

In a market economy, society's investments are made based upon the perceived return to be earned. That is, if the decision-maker believes that his gains from an investment decision will exceed the costs incurred in pursuing that decision, he will implement the investment. If he is right, he will enjoy profits which can be used for future investment or consumption. If he is wrong, he will suffer losses. If the losses are severe enough, the resources will be depleted and no future decisions or investments will be possible.

In the public sector, the connections between decisions and outcomes are more indirect. Establishing the costs and benefits for the purpose of estimating a future return on investment is more complex and difficult. The responsibility for the decision-making may be obscure. The profits or losses are diffuse and ambiguous. The short-term political impact of the decision will be more prominent in guiding public policy than the longer term investment returns. Nevertheless, these problems and complexities do not

relieve society of the consequences of bad decisions made in the government sector.

The simplest approach to evaluating an investment is to match cash inflows to cash outflows. If more cash is coming in than going out, the activity is sustainable. If the reverse is the case, namely more cash on the way out than on the way in, the activity is unsustainable. Unsustainable activities may be rescued in one of two ways: reduce expenditures or increase revenues.

Private businesses might resolve a cash flow problem by either cutting out losing product lines, or increasing prices, or both. The public sector could well take heed of this approach. There are a few barriers that must be overcome, though, before a rational public policy can be adopted. First to go must be the notion that access to the road system is some sort of inherent right to which persons or corporations are entitled. Roads are material goods that cost real resources to construct, operate, and maintain. Individuals or businesses have no right to demand access to highway services without paying the costs of that service.

A second barrier to be overcome is the idea that it is not possible to fairly assess highway users for the cost of the services they require. Granted, the public sector has little experience with pricing and mar-

keting its products. This is not to say that it should not be done.

A third barrier to be overcome is the notion that the value of road services can or should be determined independently of the use and fees collected for that use. It has been stated that user fees do not capture all of the benefits enjoyed by road users. In this respect, roadways are no different than any other economic good. Everything exchanged in a voluntary transaction produces benefits above and beyond the revenues collected by the seller.

Uncaptured Benefits

The problem of uncaptured benefits is not unique to highways, or to the public sector for that matter. To argue that higher taxes for highway purposes are justified because of the non-revenue-producing benefits occasioned does nothing to establish what priority, if any, highways are to have over any other use for resources. The fact that highways are public facilities often conveys the erroneous idea that this in itself makes them especially productive in terms of non-revenue-producing benefits. There is no basis for assuming that public sector investments do, while private sector investments don't, produce these benefits. Yet, many analyses conducted by government economists implicitly make this assumption.

Since there is such widespread

confusion surrounding this issue, an example may be most illustrative. A frequently cited example of a road's non-revenue-producing benefits is the reduced travel time for emergency vehicles. Cutting an ambulance's transit time by a few minutes may save a life. The value of this life is not reflected in the user fees collected from whatever highway taxes may be paid by the beneficiary of the life-saving event.

There can be little argument with the proposition that in instances like the aforementioned example, the benefits exceed the revenues produced. What isn't answered is how the benefits of better roadways compare to the benefits produced by the other components of the life-saving event. Isn't the phone call which summoned the medical help worth more than the 10 cents it may have cost? Isn't the medical equipment that may be used—cardiopulmonary resuscitation machines, surgical tools, and the like—worth more than the cost? Isn't the vehicle doing the transporting worth more than the cost? The list of other factors can be quite extensive. In the case of each component, it can be justly argued that the benefits to the person served exceeded the revenues captured by the manufacturers of the components.

The difficult question is how do we compare the non-revenue-producing benefits of each component? If we ig-

nore the non-revenue contributions of every component other than the highway system, we will distort the investment picture. Universal application of a methodology which computed non-revenue-producing benefits for public sector investments only would result in a costly transfer of resources from their most productive uses to a series of largely arbitrarily selected public sector projects. This would reduce social welfare. The best road system in the world would be useless if vehicle manufacturers couldn't obtain resources.

Arizona: A Case Study

Investigation of the Arizona State Highway System in terms of return on investment demonstrates the folly of ignoring the market in highway investment decisions. Over 60 per cent of the mileage on the State System does not generate enough revenue to cover the cost of upkeep. That is, nearly 4000 miles of roadway operate at a loss. These are roads under state jurisdiction. The situation appears to be even worse for county and local roads.

The investment performance of various portions of the State Highway System shows wide disparities in the returns generated vs. the costs incurred. Some segments cover their costs many times over. On the other hand, many segments won't even generate enough revenues to cover

a fraction of their anticipated costs. Even if taxes were doubled, over 45 per cent of the system's mileage would not generate enough revenue to cover the cost. If taxes were quadrupled, nearly 30 per cent of the State System would not cover the cost of upkeep. Finally, there are segments where the expenses are so high, or the revenues so low, that they can't even cover 10 per cent of the cost. Over 780 miles of the Arizona State Highway System falls into this category. Roadways in this category include the fantastically expensive urban freeways and portions of rural highways that see little use.

The Market Is the Answer

The profit/loss profile of the highway system is a reflection of past decisions in highway investments. The crazy quilt pattern of viable and non-viable road segments serves as an indictment of the previous highway planning process. The schemes, the mechanisms that have been used in the name of the "public interest" or "general welfare" have been a complete flop. The resulting highway infrastructure serves transportation demand worse than a random system of roadway funding would have done.

Contemporary public debate has shunned the issue of government responsibility. The mismatch of highway expenditures and demand that


has produced clogged urban streets and nearly vacant rural roads is portrayed as an accident, or a result of OPEC manipulations, or Japanese auto manufacturers—anything but what it is: the failure of government in the provision of material goods and services.

It is easy to take the products of modern capitalism for granted. It would not be so easy to live without these products. If more and more resources are diverted to the public sector, because the total return on investment (with non-revenue benefits added) in the public sector appears better than the purely financial returns calculated for private sector firms, human welfare would be reduced.

It is not really feasible for us to attempt to measure the non-revenue-producing benefits of every possible use of resources. Fortunately, it is not necessary to do this. Comparability between alternative uses of scarce resources can be achieved by restricting analysis of benefits to the revenue-generating services for which users are willing and able to pay. This puts the onus on the public sector to exert more effort in ascertaining appropriate pricing systems in order to capture a larger portion of claimed benefits as cash inflow.

The fact that new pricing systems may be unprecedented or difficult to initiate is no argument against the legitimacy or the advisability of de-

vising them. The advantages of developing a more market-oriented pricing system and using it to fund sustainable highway investments are persuasive. The foremost advantage is that it would most fully employ the device of allowing consumer choice. Consumers would have the option of using—and paying for what they use. This would move from a politically determined decision-making environment toward a more market determined environment.

Greater customer satisfaction could be anticipated. Cash flows would be more stable—responding to the demand and use of the facilities, rather than to the political popularity of the road system. The continuous expression of market demand via user purchases of highway services would simplify the task of deciding what services to supply. Government would be more assured that it is providing value for the fees it collects. 

Looking in the Wrong Place

No number or concentration of experts on road construction or of wizards on finance can find the solution to the highway problem *until the search is conducted in the area in which the solution lies*. The evidence is clear that the wrong place to look for the solution to the highway problem is in the area of government. That practically all highways are owned by some particular form of government—federal, state, county, or municipal—*is the problem* and not the solution.

IDEAS ON



LIBERTY

Government is not creative, although misguided and misunderstanding citizens and elected servants have time and time again mistaken compulsion for creation.

The proper role of the government should be to defend our nation from outside attack, as a soldier, and defend us from lawlessness from within, as a policeman. Both of these tasks are very important, but neither is creative in nature. The company striving to develop a new vaccine for the elimination of cancer surely would not assign the project to the plant security police. Nor should we assign the development of highways to political policemen. We have too often hooked up coercive power to a creative field, and the results have ended inevitably in failure. When the hand of government is inserted in a problem requiring initiative, it becomes a dead hand—and the failure can be predicted.

Progress Is Difference

PROGRESS IS DIFFERENCE. So wrote Herbert Spencer, the great English philosopher, scientist, and defender of individual liberty a century ago. Spencer's insight is simple—one might even say obvious—yet profound. He lived in an age, as do we, which took progress for granted, and very few people ever stop to analyze the essential nature of that which is taken for granted. Spencer did. What he is telling us is that if people are not at liberty to try something different, something out of the ordinary, if they have always to follow the traditional or approved course of action, then we would never discover any improvements at all.

Without difference, our products, services, and institutions would never have advanced beyond the level of our most primitive ances-

tors. Indeed, Spencer would point out, the physical advancement of the human species itself from a comparatively small-brained, ape-like creature to its present state has come about entirely due to the beneficial effect of differences. Changes which improved our chances for survival were incorporated; those which did not were selected against. That is the way natural selection works.

Unfortunately, as I said before, we live in an age which has seen so much progress that progress has come to be taken for granted. The danger in this is that we seem to be losing sight of the fact that progress is not a dependable, eternal given like the sun rising in the east. For there to be progress, there must be freedom to try new approaches. This explains why the communist bloc nations have such low standards of living and never invent anything

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which is useful to man in his striving to live his life comfortably. Under tightly controlled and centrally planned societies, deviations from the standard are not permitted. Unwittingly (in most cases), the advocates of increased government ownership and regulation (which is *de facto* ownership) are taking us down this same path. The leftist intellectual fad of governmentally-enforced standards would put the creativity of human beings in a strait jacket. It would stamp out progress.

Differences Outlawed

Several examples will help to confirm the continuing relevance of Mr. Spencer's observation on the need for liberty to be different. Consider first the phenomenon of building codes. One finds them in virtually every locality; they tell the builder in minute detail how he must construct his building. The reason given for the enactment of such laws is that they protect the purchaser or any other occupier of space in a building against its collapse or other mishap due to the employment of improper methods or materials. To accomplish this objective, which could be achieved without any coercion through contracts and the invocation of tort law when necessary, the government sets up a standard. Failure to comply in any respect with this standard gives the building inspector the power to forbid further

work on or use of the structure until the violation has been remedied.

Most people think this entirely good and proper. Protection against hazards always sounds beneficial, but we must look not only at what is seen, but also at what is unseen. As Bruce Cooley writes:

What (building codes) actually do is "protect" the consumer from any construction practice, faulty or not, which *differs* from those spelled out in the building codes. And in the process they make housing more expensive. One veteran builder, Sol Sylvan of Kennewick, Washington, puts it this way, "[the codes] tend to become treated by the officials who enforce them as religious dogma." This, he argues, limits the introduction of *innovations* in building materials and designs.¹ (Emphasis mine.)

Thus, by prohibiting differences in building, we prohibit the use of human ingenuity which could lead to better and less costly housing. As with all regulation by government, imposing conformity in order to prevent some harmful acts serves to filter out a large number of beneficial but nonconforming acts.

Another illustration of how prohibiting difference gets in the way of progress can be seen in the regulation of railroads in the United States. That the railroads have been regulated almost to death is well known. Here is a specific example. The Federal Railroad Administration is a part of the Department of

Transportation. Among other duties, the FRA oversees railroad safety, and therefore has the power to approve or forbid the use of advanced railroad technology.

In 1976, the Bi-Modal Corporation, of Greenwich, Connecticut, began development of a vehicle which could be either pulled as a truck trailer or as a freight car, depending upon whether its inflatable tires or railroad wheels were down. Bi-Modal named its creation the "RoadRailer." The advantages of the RoadRailer are obvious: compared with the standard "piggyback" train (trailers riding atop flatcars), RoadRailer trains reduce weight and wind resistance, thus conserving fuel. When tested, RoadRailers passed the stress tests of the Association of American Railroads.

But then the FRA entered the picture. The safety tests and potential cost savings did not matter in the least to the bureaucrats. They refused to approve the RoadRailer. Why? The official line went as follows: All railroad equipment must conform to the specifications of the Rail Safety Act, passed in 1893 and last amended in 1910. Since the Rail Safety Act was passed before the invention of the RoadRailer, the latter could not possibly meet the requirements. Unofficially, the reason for disapproval may well have been pressure from existing equipment suppliers who feared loss of business

to the RoadRailer, perhaps combined with the usual animosity which bureaucrats have for the entrepreneur.

Eventually, the FRA's obstructionism was by-passed. A special act of Congress amended the Rail Safety Act to permit the employment of the RoadRailer. However, the Government's hostility to difference delayed its introduction by two years, and the FRA's aversion to innovation—progress—in railroad technology remains as strong as ever.²

Medical Education Controlled

A third example of this phenomenon of governmentally-imposed conformity stifling progress is found in education, specifically medical education. At one time, medical schools were completely free of state regulation. The focus was on the output of the school, namely the competence of the physician, rather than upon the school's curriculum.

All of this changed after the famous Flexner Report of 1910. This most unscientific study found many of the medical schools in the United States to be "substandard." When the state legislators heard about this alleged problem, they swiftly set about remedying it. How? By establishing standards recommended by the American Medical Association. The AMA's interest in the matter is not difficult to see. Fewer medical schools and longer, more expensive

training periods mean less competition, hence higher earnings for those in the profession. Of course, the rationale presented to the public was that the standardization of medical education was for their protection.

What effect did this have on medical education in the United States? By now, it should be easy to predict the answer. With the imposition of rigid specifications, medical schools became hidebound and conservative. As Professor Reuben Kessel states, "There was a hiatus of over forty years in the search for better curricula and training methods, and in the utilization of the talents of scientists outside of medical schools for the training of physicians."³

Innovations—in anything—most often come from newcomers to the field who must do something different in order to compete with those already established in the field. But government standards prevented this in medicine. Any new school which dared to deviate from the orthodoxy risked loss of certification. Progress was arrested for over forty years, as Professor Kessel points out.⁴

The cult of standardization enforced by the power of the government has become deeply entrenched in the United States. Examples such as those discussed above could be multiplied almost endlessly. There

is no need for that, though, as the principle at work here should be quite clear. Progress is impossible unless people are free to be different. This is an inescapable reality, and it applies to every aspect of human existence.

Those people who clamor for more control and regulation of our lives are necessarily advocating an end to experimentation and innovation. We owe our present lofty standard of living to the large measure of freedom enjoyed by our ancestors, and if we are to overcome the problems which now beset us, we too must have the liberty to use our greatest asset—ingenuity. The world is far from perfect. Progress is a necessity. And progress we will have, as long as people are free to be different. ☉

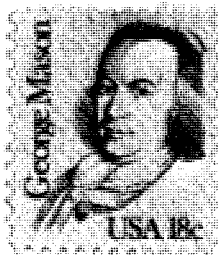
—FOOTNOTES—

¹"The Shortage in Housing," *Libertarian Review*, August, 1981, p. 39.

²For the complete story of the RoadRailer, see William D. Burt's article, "The Plot to Take Over America's Railroads" in *Reason*, March, 1981, pp. 20–28.

³Reuben Kessel, "The AMA and the Supply of Physicians," *Law and Contemporary Problems*, Spring 1970, p. 270.

⁴For a fine discussion of the entire spectrum of problems caused by governmental regulation of medicine, see John C. Goodman, *The Regulation of Medicine: Is the Price Too High?*, Cato Institute, 1980.



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Commemorative postage stamp honoring George Mason.

GEORGE MASON: Father of the Bill of Rights

THOMAS JEFFERSON has been justly honored, in the main, as the author of the Declaration of Independence, one of three accomplishments that he chose to be inscribed on his tombstone: "Here was buried Thomas Jefferson, author of the Declaration of American Independence, of the Statute of Virginia for religious freedom, and father of the University of Virginia."

It is indicative of the priority of values held by Jefferson that he asked to be remembered in finality by a legacy of principles of freedom and an institution of higher education. No mention was made by him that he had attained the very high-

est political offices of his state and nation: Governor of Virginia, Secretary of State of the United States, and successively Vice-President and President of the United States.

But how much credit is justly due Jefferson for composing the Declaration? How original and how complete was his authorship of this document? Did he create or invent it, or did he copy, recall, or borrow in good part?

Jefferson's role as the author of the Declaration seems securely established and likely to endure. However, there is little or nothing in the Declaration in concept or language that had not been previously written by Spanish and Italian Jesuits of the seventeenth century, John Morin Scott (1730?-1784) of New York, James Otis (1725-1783) of Massachusetts, Filippo Mazzei (1730-1816) of Italy and Virginia, Richard Bland (1710-1776) of Vir-

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ginia, Thomas Paine (1737–1809) of England and Pennsylvania, and George Mason (1725–1792) of Virginia. What is more, Jefferson was most probably familiar with all of these prior writings with the possible exception of the polemical pieces by Scott that were broadcast at the time of the Stamp Tax controversy in 1765. Jefferson himself has been candid enough to write in later years in a letter of May 8, 1825, to Henry Lee: "I did not consider it as any part of my charge to invent new ideas altogether and to offer no sentiment which had ever been expressed before."¹

A Necessary Connection

It does not diminish the honor that of right belongs to Jefferson, therefore, if we call attention to the contribution of others to the Declaration of Independence and accord them their just recognition in turn. Also, we gain increased understanding of the relationship between the Declaration and the Constitution of the United States and subsequent amendments if we see their "necessary" connection. For we may regard the original Constitution, the Bill of Rights, and especially Amendments XIII, XIV, XV, and XIX, as "necessary" to implementation of the ideas stated in the Declaration.

And this is where proper recognition of the role of George Mason also

becomes "necessary" to an improved perspective of historical development and justice to the memory of Mason. For not only did Mason make an important immediate contribution to the Declaration of Independence, but he also anticipated in general the structure and principles of government contained in the Constitution of the United States and those amendments which most added to freedom and equality before the law in America. We may also observe that Thomas Jefferson was not at the Constitutional Convention in Philadelphia in 1787 or in Virginia during the struggle for ratification, but George Mason was a leading actor during both events.

Robert Allen Rutland says of Mason's participation during the Constitutional Convention: "He was a faithful attendant at the sessions, speaking to the point on practically every topic of importance."² In any event, Jefferson and Mason indisputably viewed each other as honorable, kindred spokesmen and were the warmest of allies, pleased with and supportive of each other. It was a friendship based on the strongest of foundations—mutual respect—and ended only with the death of Mason but a week after a farewell visit by Jefferson to Mason at Gunston Hall, his beloved plantation home.³

The Declaration of Independence probably would have been quite similar in use of concepts, language,

and line of argument even had Mason's Virginia Declaration of Rights not been available to Jefferson. Perhaps the same may be said of the Bill of Rights and Amendments XIII, XIV, and XV. However, we are able to trace a direct causal connection between the Virginia Bill of Rights and the First Ten Amendments. Indeed, a careful reading of the Virginia Bill indicates that its influence on the contents of the Declaration of Independence is much less than its contribution to the Bill of Rights of the Constitution of the United States. Also, the Bill of Rights may be of more practical and enduring value to the American system of government than the Declaration of Independence.

The Declaration embodies a credo of lofty principles and sentiments—but it is the Bill of Rights that is a matter of everyday law and habit by which Americans live. The Bill of Rights fulfills the aspirations of the Declaration of Independence as a continuing effective limitation on the power of government and as a promoter of individual and group freedom and opportunity. Is not this combination the essential nature of the American system of government and society?

Therefore, it is really of minor concern whether it be Mason or Jefferson who is to be held responsible for the phrase “the pursuit of happiness” that appears in the Decla-

ration. For example, William Safire writes in a column entitled “What Government is For,” that Jefferson departed from Locke's phrase “life, liberty and property” because, as Safire states it: “A disciple of his, Thomas Jefferson thought that he would give that phrase an inspirational lift, and our Declaration of Independence hails ‘life, liberty and the pursuit of happiness.’ That euphemism started the trouble.”⁴ The usually well-informed Safire has strayed into areas dealing with history and political theory where he lacks expertise and has thereby illustrated the need for many of us to become more familiar with the background as well as the wording of the Declaration.

The Origin of the Idea

It is not difficult to set straight who was primarily responsible for inclusion of the words “the pursuit of happiness” in the Declaration by pointing out that they were, in effect, contained in the earlier Virginia Bill of Rights that was adopted on June 12, 1776, and that even before that date Philadelphia newspapers had reprinted its draft text (e.g., the *Pennsylvania Evening Post* on June 6, *Pennsylvania Ledger* on June 8, and *Pennsylvania Gazette* on June 12). Jefferson was not asked to draft the Declaration until June 11 and probably did not begin his task of writing until June 12.⁵

The first article of Mason's Virginia Bill states: "That all men are by nature equally free and independent, and have certain rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety."⁶ By comparing the texts of the Virginia Bill of Rights and the First Ten Amendments—and, incidentally, the contributions of its framers in 1776 to the Declaration of Rights for the State of Pennsylvania and of John Adams to the draft of the Massachusetts Declaration of Rights for its Constitution of 1780—we see clearly recognizable reliance on George Mason's thoughts and words.⁷ Most important of all, the following provisions that are present in the First Ten Amendments are contained in the Virginia Bill of Rights as well, at times in the very same words:

Amendment I: Freedom of religion and of the press.

Amendment II: A well-regulated militia. (Mason goes well beyond the Constitution, e.g., by specifying "that, in all cases, the military should be under strict subordination to, and governed by, the civil power.")

Amendment IV: No general warrants, but only those specifying the particular person, place, and thing and issued only upon probable cause.

Amendment V: No man to be deprived of liberty or property without due process of law, or compelled to be a witness against himself.

Amendment VI: In all criminal prosecutions the right of the accused to a speedy trial in the State and district and to be informed of the nature and cause of the accusation; to be confronted with the witnesses; and to have compulsory processes in his favor.

Amendment VIII: "Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted." (E.g., Mason: "9. That excessive bail ought not to be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.")

The influence of Mason and his tenets goes far beyond the Constitution's Bill of Rights, however. Thus, we may note the following basic provisions that are present in the original articles of the Constitution and are also specified in Mason's Virginia Bill of Rights: separation of the branches of government, a republican form of government, and periodic election to legislative and executive offices.

It is a matter of conjecture why Jefferson and his colleagues—who did make changes in his draft—did not include property or restore it. In fact, the word property does not appear in Jefferson's Rough Draft or the final version, but we do not know what was contained in the earlier drafts that have been lost. Perhaps this omission was an oversight, and

perhaps not. Perhaps consciously or subconsciously property was omitted because material things were lower in their scale of values than the independence, self-government, and personal freedom for which they proclaimed "we mutually pledge to each other our Lives, our Fortunes and our sacred Honor."

Opposing on Principle

Even the pragmatic Alexander Hamilton in *A Full Vindication of the Measures of the Congress* (1774) had written with disdain of the economic aspects of the tea tax: "How ridiculous, then, is it to affirm that we are quarreling for the trifling sum of three pence a pound on tea, when it is evidently the principle against which we contend."⁸ It is still the general rule that America, although rich in material accomplishments and possessions, considers things of the human spirit, including its pursuit of happiness, as transcendent. However, cognizance should be taken here that personal freedom, safety, and happiness are usually inseparable from enjoyment and protection of legitimate property rights.

The role of Thomas Jefferson and his Declaration of Independence as sources of continuing inspiration is a familiar one. Less familiar but no less important for America is the role that George Mason and his Virginia Bill of Rights played in fitting

into place the capstone of American constitutionalism. It is not James Madison who is the original author of and prime mover for the First Ten Amendments to the Constitution of the United States: it is George Mason. George Mason refused to sign the Constitution at Philadelphia in September of 1787 because it failed to incorporate a Bill of Rights for the purpose of imposing limitations on the new federal government and because it failed to end slavery. He resolutely sat on his hands.

Mason went home to brave the wrath of George Washington and many of his countrymen by arguing in company with Patrick Henry that ratification of the Constitution should not take place until a Bill of Rights had been added to limit the power of the federal government and to protect the rights and freedom of states and individuals. To his great credit, although Madison adhered to his position that ratification should come first, he came to see the merits of Mason's demand for a federal Bill of Rights and the need to forestall a new convention. Madison therefore was to be the leader in Congress of those working for adoption of a national Bill of Rights in fulfillment of their ratification campaign promise.⁹

Until his end, Mason continued to hate slavery and to rue the failure of the Constitution to root it out from the new nation. But Mason ap-

proved of Madison's version of his Virginia Bill and lived to see the First Ten Amendments go into effect on December 15, 1791.¹⁰ It would therefore be appropriate if, just as Thomas Jefferson is remembered every Fourth of July in connection with America's Declaration of Independence from Great Britain, George Mason were to be more widely associated in the popular mind with the Bill of Rights that carried Independence a step further to "secure the Blessings of Liberty to ourselves and our Posterity" purposed in the preamble of a somewhat incomplete Constitution. ⊕

—FOOTNOTES—

¹Paul Leicester Ford, ed., *The Works of Thomas Jefferson*, 12 vols. (New York: G. P. Putnam's Sons, 1904-1905), Vol. XII, p. 409.

For discussion of a significant but too-neglected essay of 1765 by John Morin Scott that presented ideas and language similar to what later appeared in the Declaration, see Raymond Polin, "Foreshadows of the Declaration of Independence in the New York Press," *The Freeman*, Vol. 13, No. 7 (July, 1963), pp. 14-20. For concise identification and explanation of these ideas, see Polin, "The Political Theory Within the Declaration of Independence and Its Meaning for Us Today," *The Social Studies*, Vol. 57, No. 4 (April, 1966), pp. 147-154, including bibliography.

For the writings of George Mason, see Robert Allen Rutland, ed., *The Papers of George Mason*, 3 vols. (Chapel Hill: University of North Carolina Press, 1973).

²Robert Allen Rutland, *George Mason, Reluctant Statesman* (Charlottesville: University Press of Virginia, Dominion Books, 1963), p. 85.

³*Ibid.*, pp. 99 and 106-107; Helen Hill Miller, *George Mason, Gentleman Revolutionary* (Chapel Hill: University of North Carolina Press, 1975), *passim*, especially p. 333; and Kate Mason Rowland, *The Life and Correspondence of George Mason, 1725-1792* (1892), 2 vols. (New York: Russell & Russell, 1964), e.g., Vol. I, pp. 272-274, and Vol. II, pp. 363-365.

⁴*New York Times*, 2 March 1981.

⁵James Munves, *Thomas Jefferson and the Declaration of Independence: The Writing and Editing of the Document that Marked the Birth of the United States of America* (New York: Charles Scribner's Sons, 1978), pp. 10-14.

⁶In addition to *The Freeman*, Vol. 31, No. 7 (July, 1981), pp. 410-412, the text of the Virginia Bill of Rights is contained in Miller, *Gentleman Revolutionary*, pp. 337-340 (first draft, printed committee draft, and final version).

⁷Miller, *Gentleman Revolutionary*, pp. 154-155; and Robert Allen Rutland, *The Birth of the Bill of Rights, 1776-1791*, published for the Institute of Early American History and Culture (Chapel Hill: University of North Carolina Press, 1955), pp. 44-47 and 66-74.

⁸Henry Cabot Lodge, ed., *The Works of Alexander Hamilton*, 12 vols. (New York: G. P. Putnam's Sons, 1904), Vol. I, pp. 3-52, at p. 7.

⁹Miller, *Gentleman Revolutionary*, pp. 274-275 and 296; Rutland, *Reluctant Statesman*, pp. 89-107; Rutland, *Birth of the Bill of Rights*, pp. 192-193; Nathan Schachner, *The Founding Fathers* (New York: G. P. Putnam's Sons, 1954), pp. 51-52; and Irving Brant, *The Bill of Rights: Its Origin and Meaning* (New York: New American Library, Mentor Book, 1967), pp. 42-59.

¹⁰Rutland, *Reluctant Statesman*, pp. 106-110; Rutland, *Birth of the Bill of Rights*, pp. 190-210, especially p. 210; Miller, *Gentleman Revolutionary*, pp. 321-329; and Rowland, *Life and Correspondence of Mason*, Vol. II, pp. 318-365.

PERSPECTIVES ON RELIGION AND CAPITALISM

THE TWO MAJOR TERMS in my title are subject to extravagant misunderstanding and occasional abuse. Some of this is natural, due to limited knowledge; much of it is willful and ideological. It is appropriate, therefore, that I try to elucidate at the very beginning how the term "religion" is to be used in this paper. The meanings I attach to "capitalism" will be clarified as we proceed.

It is my understanding that religion, at bottom, is not one sector of human experience separate from other portions of human experience; it is more like a common core. A college or university, for academic purposes, may have a department of religion alongside departments of chemistry, history, mathematics, or whatever, and this fact may mis-

lead. In actual living, and in its deepest sense, your religion is not one subject among other subjects; your religion is the fundamental way you approach, understand, and evaluate all subjects. It consists of your first principles, the truths you regard as self-evident, the basic axioms you take for granted, and through which you view everything else. Your religion colors your outlook upon the universe, affecting the way you look upon life, your relation to other people, your treatment of things.

Religion is many faceted; it has its history, its doctrines, its exercises, its rituals, its ecclesiastical structures, and so on. But the central core of every religion is its vision of the cosmos, its understanding of the nature of ultimate reality. For the purpose of this paper I shall put aside several important elements of reli-

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gion and use the term as equivalent to world-view, or *Weltanschauung*. Everyone entertains some image of the entire scheme of things, a mental picture of what the totality—in the final analysis—is like. Some have pictured the universe as an immense and intricate piece of clockwork, a mechanism; others regard it as a gigantic organism, or as the great ocean of being, or as a featureless Absolute. Everyone operates in terms of some image of the nature-of-things, for to be human is to be a metaphysician. My own world-view is that of Christian theism.

A Creative Intelligence

Those who entertain the religious—or theistic—world-view conduct their lives on the premise that a Creative Intelligence is working out its mighty purposes through nature, in history, and above all, by means of persons. The Divine Intelligence is creative, as witness the continuing emergence of novelty on the world scene; the Divine Creativity is intelligent, because wherever we look we find a deft and ingenious adaptation of means to ends. There is order, beauty, elegance, economy and balance from one end of this universe to the other. Human beings may come to a sense of kinship with this Creative Intelligence by aligning themselves with the movement and configuration of its thrust.

At the same time we may become

keenly aware that vast stretches of this universe appear to be indifferent to us. I refer to the natural order, the realm of nature subject to the laws of physics, chemistry, and the other sciences. Cause and effect operate inexorably in nature, independent of our fears and wishes. A stone falls to earth in response to the tug of gravity, and we have no choice but to adjust our actions to this and other physical laws. Natural forces affect our actions, and natural disasters cause human injury and sometimes death. The natural world piques our curiosity, and we seek to understand it so as to cope with it more successfully. Nature will never surrender unconditionally to man, but nature's stubborn otherness provides a necessary condition for the exercise of human freedom.

The nature we confront is a non-human Other, and this Other is neutral, so far as we as individuals are concerned; the rain falls on the just and the unjust alike. But if this were not so—if the Other were responsive to the conflicting and the constantly changing whims of billions of human beings, submissive to our rituals and incantations—if the Other were not largely neutral and/or indifferent it would be chaotic.

Actually, the Other is an order, a vast and comprehensible order consisting in discoverable patterns and

recurrences. The neutral orderliness of nature provides a basis for understanding and explanation; it affords a significant measure of predictability, allowing us to plan our lives and achieve our goals. A neutral order provides the necessary condition for exercise of the freedoms and powers proper to human nature. And as we come into a working relationship with the Other a sense of kinship begins to develop.

Let me illustrate: A man confronts a portion of the Other in the form of a body of water; a pond or a stream. He complains because the water is cold, wet, and indifferent to him; furthermore, the water is an obstruction, impeding him as he wades through it. But this same water, to an expert swimmer, is the necessary vehicle for his freedom as a swimmer. The swimmer does not complain about the water's friction, even though it does impede his progress through it and slows his speed. For him, the friction of the water is the same thing as its buoyancy, and without the buoyancy swimming would be impossible. The exhilaration our athlete derives from a vigorous swim begets his belief in the friendliness of at least this little segment of the cosmos—which now appears to have been constructed just for his delight. The relation is symbiotic. There is resonance between ourselves and the Other.

The realm of nature out there may

sometimes appear arbitrary, indifferent to human values, or even antagonistic. But shift perspective even slightly and we realize that if nature were not neutral—that is, if nature could be bent to the human will we would not be free beings. If nature were not largely recalcitrant and unyielding, we free beings would have no incentive to cooperate intelligently with it, making use of its forces to advance our purposes—simultaneously strengthening our own powers and refining our skills as we do so.

Human Capacity for Choice

It is obvious that we human beings do not merely react mechanically to external stimuli—we are capable of a creative response to our environment. B. F. Skinner and his behaviorists declare that human beings are capable of little more than a Pavlovian reaction to a stimulus; they speak for themselves. They don't speak for us, for at the very core of our being we bear the imprint of the Creative Intelligence which is back of all things. We are gifted with free will, and it is this capacity for choice which makes us partakers of the primordial creativity.

Let me offer you some words of the great Russian religious philosopher, Nicholas Berdyaev: "God created man in his own image and likeness, i.e., made him a creator too, calling him to free spontaneous activity and

not to formal obedience to His power. Free creativeness is the creature's answer to the great call of its creator. Man's creative work is the fulfillment of the Creator's secret will."

Human nature is threefold; we are implicated in nature, we are part of some society, and we are touched by the sacred. We human beings, with a portion of our being, are directly geared into nature. Drop us from a height and gravity operates on us just as it does on a sack of grain. The chemical processes going on inside our bodies differ little from the way those chemicals interact outside our bodies. We are largely within the same network of causal sequences which characterize nature.

We are natural beings, but that's not all we are. We are also social beings, involved in history. Occurrences in nature are explained in terms of causes; actions in history and society are explained in terms of choices. Society is our natural habitat. Society is a spontaneous order—as F. A. Hayek has taught us—emerging out of human choices but not resulting from conscious human design.

Social order—comprising both the written and the unwritten law, together with custom, convention, habit and taste—social order may occasionally appear to stand athwart the individual to frustrate his immediate intentions. But everyone knows, on sober second thought, that

our very survival as individuals depends on social cooperation under the division of labor; human beings are interdependent. Everyone, therefore, has a personal stake in the fashioning, the strengthening and the refining of the structures of a free society. The free society provides the optimum environment for every productive, peaceful person.

Participants in a Divine Order

There are natural elements in our make-up, and everyone carries a portion of some society in his very being. And there is a third thing. Analyze human nature and you discover elements in it which are not reducible to either nature or society, important as those facets of human nature are. We participate in an order of reality which is beyond nature and beyond society. Call this the sacred order or the divine order, if you wish; or call it God—the unconditioned Creative Intelligence in which all contingent existence, including our own, is grounded.

The word "supernatural" has been battered beyond use, and in any event, it is completely "natural" for the person to bear the marks of sacredness in his own being. This fact has important political implications. In the 18th century, this central sacredness in the person—as he is conceived within the theistic worldview—was politically translated. The sacred in persons found secular

expression as the idea of inherent individual rights “endowed by the Creator,” the rights referred to in our Declaration of Independence.

Given the idea of individual rights, in virtue of what a person genuinely is in his true being, it is the task of political philosophy to fashion a legal structure designed to protect every person’s private domain, secure the rights of all persons equally, and maximize everyone’s opportunity to choose and pursue his personal goals. A uniquely religious political philosophy oriented toward these ends was called Whiggism in the 18th century, and Liberalism during much of the 19th. Whiggism and Liberalism endeavored to protect each person in his life, his liberty and his property. The free economy, or capitalism, is the natural counterpart to Whiggism; you get capitalism in the second place when you have Whiggism in the first place. Whiggism lays the necessary political ground work for the set of economic arrangements called capitalism.

The Capitalistic Order

As 19th-century Classical Liberalism turned into the diametrically opposed thing called liberalism today, the economic order became less and less free market as governmental regulations and controls progressively expanded over the economy. Capitalism—ideally—means simply private property, individual lib-

erty, and the voluntary exchange of goods and services between freely contracting parties.

Capitalism is what happens in the realm of industry and trade when force and fraud are eliminated from that realm. It involves peaceful competition for the privilege of serving consumers better, with a reward in the form of profit going to anyone the consumers believe has served them well. Capitalism is the only productive economic order, and the only equitable one; it submits everyone’s offering of goods and services to the collective judgment of his peers and rewards him according to his contribution—as his peers assess it.

I firmly believe that a society of free people is impossible if economic actions are fettered and controlled by the government bureaucracy. The free market economy, or capitalism, is the only way free people can organize their bread and butter activities—business, industry and trade. This mode of economic activity—capitalism—enjoys a symbiotic relationship with the legal system and political structures called Whiggism in the 18th century. Whiggism and capitalism are the two sides of the same coin; you can’t have one without the other.

Whiggery goes back to the 17th century—although Lord Acton made a good point when he referred to St. Thomas Aquinas as the first Whig. The Puritan religious movement in

17th-century England spawned a political arm of Dissenters and Non-conformists in opposition to the court party, whose members were contemptuously called Whiggamores—a Scottish term for horse thieves. Whiggery bore its best fruit on these shores, in the Declaration of Independence, the Constitution, and *The Federalist Papers*.

Whiggery in America

Whiggery gave rise to political structures designed around the sovereign individual person, to secure his rights, protect his private domain and afford him maximum scope to pursue his personal goals. These legal and political structures—which are the earmark of a free society—represent the secular projection of a religious vision of man and the universe unique to western civilization.

The introduction of Christianity into the Classical World of two thousand years ago had important political consequences, for this religion taught that only a part of man is social, a portion of his being is God's. That which is God's is sharply marked off from that which is Caesar's. The realm which is Caesar's becomes a mere province in the all-encompassing Kingdom which is God's.

There are half-gods, false gods, and tribal deities—idols all. We worship the gods of power, wealth, fame or pleasure—or whatever else

evokes our highest priorities. Some god you must have. Whatever thing you value so much that you would sacrifice all other values to it; whatever elicits your ultimate devotion; that which you invest your most ardent emotions in—this is your god. The nation state in our time usurps a god-like role as the arbiter of men's destiny. It is a chief characteristic of the 20th century that multitudes of men and women in the world-wide mass movements of our time—secular faiths like Communism, Fascism and Naziism—have consecrated first-rate loyalty and devotion to fifth-rate dictators.

Every human being is capable of first-rate loyalty and dedication, and logically we need to match this up with a first-rate object, the Object of ultimate concern—the one true God. Only the Supreme Being, God, merits the utmost devotion and consecration of which human beings are capable.

Religious Premises

If there is to be a society—in the sense of a culture—there must be a measure of agreement as to the relation between God and man, and as to the nature of man and his proper end. There must be some agreement as to what constitutes justice, honor and virtue. The source from which a society derives its understanding of these matters is its religion. In this sense, every society is cradled in

some religion, Christian or otherwise. The culture of China is unthinkable without Confucianism; Indian society is the expression of Hinduism; and Islam is composed of followers of Mohammed. In like fashion, our western culture stems from the Judeo-Christian tradition; we are a branch of Christendom.

Our own institutions and way of life are intimately related to the basic dogmas of the Christian religion. From this faith we derive our notions of the meaning of life, the moral order, the dignity of persons, and the rights and responsibilities of individuals. Ours is a religious society, but it has its counterpart in a secular state. The Constitution forbids an official church, an act which permits religion to exercise its unique authority directly, unhampered by ecclesiasticism.

Capitalism Under Fire

The word "capitalism" itself has always been controversial, having been brought into use by Marxist writers for polemical purposes. Werner Sombart, a Marxist, claims to have been the first to use the term "capitalism" systematically in his analyses published around the turn of the century. The term still has pejorative connotations, as many people use it, including those who prepare ecclesiastical pronouncements.

The World Council of Churches was launched at a meeting of

churchmen in Amsterdam in 1948. This ecumenical group appointed a commission on The Church and the Disorder of Society, chaired by one of my former teachers, John C. Bennett. The report of this commission kicked up a considerable stir because it recommended that "The Christian Churches should reject the ideologies of both *laissez faire* capitalism and communism . . ." When the press asked Dr. Bennett what he had in mind as the middle ground between communism and capitalism, he said it was British Trades Union socialism.

Precisely what did Dr. Bennett and his commission think they were rejecting when they turned their backs on capitalism? Well, they told us, by listing the four earmarks of the thing they dismissed. I quote from their report. (1) "Capitalism tends to subordinate what should be the primary task of any economy—the meeting of human needs—to the economic advantages of those who have most power over its institutions; (2) it tends to produce serious inequalities; (3) it has developed a practical form of materialism among Western nations in spite of their Christian backgrounds, for it has placed the greatest emphasis upon success in making money; (4) it has also kept the people of capitalist countries subject to a kind of fate which has taken the form of such social catastrophes as mass unem-

ployment.”

Everyone who has had even a limited exposure to the economic thought of men like Mises, Hayek, Friedman or Hazlitt recognizes the flavor of schoolboy Marxism in these allegations. If there is a form of social organization which gives economic advantages to the powerful at the expense of the rest of us, makes money grubbing the highest good, and periodically throws masses of people out of work—then every person of good sense and good will would oppose that system.

But if you really want to dismantle the thing Dr. Bennett and his cohorts ignorantly label “capitalism,” there’s only one way to do it, and that is to labor on behalf of the free society on all three of its levels; the free market economy, the Whig political structures which sustain it, and the theistic *Weltanschauung* on which all the rest depends.

The Rule of Law

Whiggery insists on the Rule of Law—one law for all persons alike, because all are one in their essential humanness. Equality before the bar of justice means maximum liberty for all persons. In *The Wealth of Nations*, Adam Smith speaks of his “liberal system of liberty, equality and justice.” People are free to the extent that such ideals come to prevail in practice, and the only economic arrangement compatible with

a free people is the market economy, or capitalism properly understood.

I should like to speak for a moment about the important distinction between principle and practice, or theory and history. Many good illustrations of this point are to be found in the history of the Church over the past nineteen centuries, where we find several instances of a wide discrepancy between Gospel Christianity and the practices of the Church in certain eras. The Church has occasionally sanctioned tyrannous political rule, it has lent its support to persecutions, inquisitions and crusades. It has forgotten its primary mission while pursuing secular ends like wealth and power.

In the economic realm, too, principle is sometimes obscured by malpractice. The late Wilhelm Roepke put it this way: “We must make a sharp distinction between the principle of a market economy as such . . . and the actual development which during the nineteenth and twentieth centuries has led to the *historical* form of market economy. One is a philosophical category, the other an historical individuality . . . a non-recurrent compound of economic, social, legal, political, moral and cultural elements . . .”

The theory of free market economics is one thing; the way some people used or misused such economic freedom as was available to them in 1870 or 1910 or 1960 is

something else again. A listing of the misuse or abuse of any specific freedom cannot be made part of a case against that freedom, for a mere multiplication of instances does not constitute proof one way or another. The case for freedom of the press does not stand or fall, depending on any evidence you might muster that editors are idiots and reporters knaves.

It is absolutely certain that freedom will be misused, simply because we are human beings. The fact that people sometimes misuse their freedom is indeed bad, but to try to correct the misuse of freedom by the denial of freedom would be infinitely worse. If there were a Richter Scale to measure social dislocation, the misuse of freedom would be one or two; the denial of freedom would be seven or eight—disaster.

Take this matter of academic freedom—a principle nobly exemplified by many educational institutions. Academic freedom does not justify the expectation that you will have Einsteins in the physics department, Nobel prize winners in chemistry, or a Whitehead in philosophy. Academic freedom could be justified on its own terms even if it could be demonstrated that the majority of professors had mail order degrees, turned up tipsy in class, and never cracked a book. Given these conditions on a campus there would be good grounds for a faculty house-

cleaning; but a catalogue of these bad conditions does not add up to the first step in the argument against the principle of academic freedom.

Academic freedom is a sound principle even if many teachers are incompetent and others betray their profession. We defend freedom of speech and freedom of the press even though we are dismayed by the inferior quality of much of the spoken and written word. Freedom of worship is a good thing and we stand for separation of church and state even though some of the results are not to our liking. And by the same token we believe in freedom of economic enterprise—even though consumer demands and producer responses to them fall short of the Good, the True, and the Beautiful. As do the efforts of some contemporary philosophers, I dare say.

Economic Freedom

Economic freedom is to be cherished for itself, just as we cherish every one of our liberties. But economic freedom is doubly important because it sustains all the rest; economic freedom is the means to every one of our other ends. Economic freedom represents our livelihood, and whoever controls our livelihood has acquired critical leverage over every other aspect of our lives as well.

We stress private property as an absolutely essential ingredient of a

society of free people, an ancient bit of wisdom which Alexander Hamilton referred to twice in *The Federalist*. In the 79th Paper Hamilton wrote: "In the general course of human nature, a power over a man's subsistence amounts to a power over his will." Control the economy and you control people. So it is not simply for the sake of economic freedom and the prosperity it creates that we argue that business, industry and trade should come within the Rule of Law and be freed from governmental dictates, and bureaucratic regulations.

Incidentally, the free economy does not go unregulated — operating within the Rule of Law, the economy is regulated by the buying habits of consumers. We defend economic freedom—voluntary exchanges of goods and services between freely contracting parties—because every one of our more important freedoms depends critically on private property and free exchange.

It is my contention that a society of free people has a free economic order as an essential element of it. John Maynard Keynes, in backhanded fashion, lends support to my contention by declaring that his theory of economic planning adapts nicely to a totalitarian political order. In a Foreword to the 1936 German translation of his *General Theory*, Keynes had this to say: "The theory of aggregate production,

which is the point of the following book, nevertheless can be much easier adapted to the conditions of a totalitarian state than . . . under conditions of free production and a large degree of laissez-faire."

Axioms of a Free Society

Capitalism—the free economy—appeared on the political foundation laid down during the eighteenth century by Whiggism in a period when the cultural climate of the West was at least vestigially Christian. The intellectual soil of Europe still bore the marks of centuries of tilling by the teachings of the Church. Theism had yielded to Deism in the eighteenth century but Deism was not secularism, and Deism did lay great stress on the three basic axioms of a free society: (1) each person is endowed with certain rights; (2) each person is gifted with free will; and (3) there is a moral law binding on all persons alike.

The eighteenth century's faith in reason really constitutes a fourth axiom; this was the belief that the universe is rationally structured, and so, by taking thought, unaided by revelation, we could convincingly prove that human beings possess inherent rights, free will, and a conscience which attaches them to the moral law. These four items constitute the heart of the religious *Weltanschauung*. If your image of the cosmos has three ingredients—rea-

son, rights, free will and the moral law—you have the proper religious foundation for the free society, of which the economic expression is capitalism.

The nineteenth century brought about a complete change in worldview, from Deism to Materialism. The latter finds its explicit and most familiar exposition in the Dialectical Materialism of Marx. The worldview of Marxism has no genuine place for reason, free will, the moral law, or the sacredness of persons. The same is true of every other variety of Materialism. Materialism sometimes goes by other labels, such as Naturalism, or Secularism, or Positivism, or Humanism.

Whatever the name, the thing here discussed is the theory which maintains that reality is reducible, ultimately, to mechanical arrangements of material particles. This is the non-theistic *Weltanschauung*, logically denying everything the theistic *Weltanschauung* affirms: inherent rights, reason, free will, and the moral law. Some Materialists may assert one or more of these religious axioms, but none of these axioms can logically be grounded in a universe consisting ultimately of nothing more than material particles, electrical charges, or whatever.

We hear much talk these days about “rights,” but to call something a “right” does not make it a right. Privileges, granted or withheld at

the discretion of the state, may be called “rights,” but this notion is worlds apart from the idea of individual sovereignty in virtue of a sacredness in the very being of each person.

Free Will and Morality

Free will is incompatible with philosophical Materialism. If man is wholly natural, and if Nature is all-there-is, and if Nature is the realm where cause and effect operate inexorably, then men and women are as much caught up in causal sequences as water, stones, gases, and everything else. It follows that free will is a delusion, determinism a fact. “Man is unconditionally subject to the natural conditions of his environment,” a leading thinker tells us. Man does not act; like everything else in nature he is acted upon; he merely reacts.

A mechanistic universe has no moral dimension; there is no right and wrong *per se*. But people can't avoid making moral decisions; human beings are habituated to thinking in moral terms, or perhaps the human mind is so constructed that it cannot function outside the moral categories. Those who assert that the universe lacks a moral dimension, frequently argue that the social system determines what is right and what is wrong—which is to subordinate ethics to politics.

Again, one hears it said that each

person decides for himself what is right and wrong for him. The inference is that the private will of each person is his only "authority"—there being no external norms or standards universally binding, to which the will and actions of every person should conform. Every man rolls his own and does his own thing. Whim, impulse, instinct, inclination, are the spurs of action. "If it feels good, do it," is the contemporary folk wisdom conveyed by bumper stickers.

If the cosmos provides no clues for human conduct; if justice is of merely human contrivance, representing the interest of the powerful, then no one has any *moral* obligation to do anything when he happens to feel like doing something else. By the same token, no one has any warrant for telling anyone else what he ought to do, or not do. This is what each person decides for himself, each getting his kicks in his own way, each doing whatever turns him on. The old covenant has been shattered, the rule book discarded.

Having reached this point, the argument is hoist with its own petard. The weak doing their thing are at the mercy of the strong doing theirs. The unscrupulous doing their thing is why good guys finish last. Some people get their kicks by preventing other people from getting theirs, and there is no rule to say them nay. Those who want to live and let live are put under the thumb of those

who strive for ascendancy over others because for these latter the exercise of power "feels good." You cannot tell those who hanker after power that tyranny is "wrong," because they will tell you that wielding power is "their thing," which you have been at such pains to tell them to pursue!

The non-theistic world view has no real niche for the concepts of inherent rights and free will; it has discarded the norms without which no genuine ethical decision is possible; it makes reason the tool of class interest. Materialism is the appropriate ideology for a totalitarian society, but the Materialist who seeks to provide a rationale for the free society has saddled himself with an impossible task.

The Moral Foundations

Economic arguments for capitalism fall on deaf ears unless people, on other grounds, have first embraced a philosophy of man and society which incites them to seek their own good while working for the well-being of the whole community, that is to say, when they have given proper weight to the argument for the free society based on ethics, inherent rights, and free will.

The ethical argument for the free society limits governmental power by surrounding it with moral restraints. There is not one law for magistrates and another for citi-

zens; rulers and ruled are alike under the moral law. Statutes must conform to a higher law, or divine law, superior to the enactments of legislators, discovered by reason and intuition.

The argument from inherent rights views society's political agency as having the negative function of securing each person's private domain, protecting his life, liberty, and property, in order that he might have maximum freedom to pursue his personal goals.

The argument from free will is that the free society-free economy—Whiggism-Capitalism—provides the only social arrangements consonant with the nature of a creature gifted with the capacity to choose. The fact that each person is in charge of his own life, responsible for making the countless decisions required to bring his life toward completion, requires social conditions of maximum opportunity for choice. Human nature

and the free society are complementary, two sides of the same coin. A society humane and just needs economic arrangements to match, and this means capitalism.

The free economy does not beget itself; the free economy appears only after we have the free society. And the free society emerges only after generations of exposure to the idea that there is a sacredness in persons which, in the political and economic spheres, demands liberty and justice for all. It is a mandate of our better nature as well as a requirement of our religion, that we work toward a society where every person has the widest possible scope to exercise his capacity as a freely choosing person, guiding his life by reason, within the moral law.

Is it not true—as Thomas Jefferson reminded us—that “The God who gave us life, gave us liberty at the same time.”

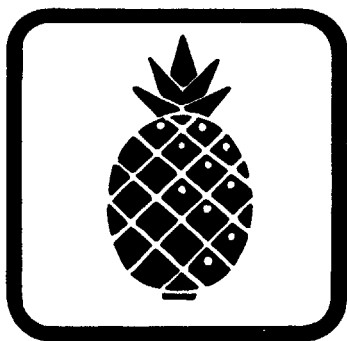
Alfred North Whitehead

IDEAS ON



LIBERTY

RELIGION is the vision of something which stands beyond, behind, and within the passing flux of immediate things; something which is real, and yet waiting to be realized; something which is a remote possibility, and yet the greatest of present facts; something that gives meaning to all that passes, and yet eludes apprehension; something whose possession is the final good, and yet which is beyond all reach; something which is the ultimate ideal and the hopeless quest.



Who Bears the Tax Burden?

ONE of the least understood concepts in economics concerns the effects of the corporate income tax. Many say the burden of this tax falls totally on the shoulders of the corporations since they actually "pay" the tax. Others see this as a consumer tax since everything the corporation earns comes ultimately from the consumer. While both statements may be partially true, neither gives the complete picture. To gain a better understanding of the effects of such a tax, consider the following example:

The small island country of Koala boasts a relatively free market, private property order. There are five corporations on the island which grow and sell pineapples. Assuming

all pineapples to be similar, these businesses, in conjunction with their customers, have settled on a price of \$1.00 per pineapple. This price has not been determined by the costs of the pineapple growers, but has been discovered as the market-clearing point satisfactory to both sellers and buyers. It is the price at which supply equals demand.

Now suppose the government of Koala imposes a \$.50 per pineapple tax on these corporations. Some claim that since the tax is charged to these businesses, they bear the cost. Others argue that since everything these businesses earn ultimately comes from the consumers, the consumers bear the full burden of this tax. Who is right?

Assume the former are right and the sellers still charge only \$1.00 per pineapple. Since the tax has

Mr. Hultman assisted with the 1981 Summer Seminar program at FEE. He is a senior at the University of Nebraska at Omaha.

driven up costs, thus reducing and possibly eliminating their profits, some firms must close or move to more profitable areas. This reduction in the number of sellers results in higher prices for buyers since the supply of pineapples has diminished. Thus, consumers bear at least some of the cost of this tax.

Now suppose the latter argument is correct. This means that the businesses would charge \$1.50 and remain unaffected by the tax. However, many buyers leave the market at this price, deciding they would rather do without pineapples or grow their own. If this weren't so, sellers long ago would have raised their prices to \$1.50.

As buyers leave, the sellers' revenues fall. Sellers soon find they are better off bearing part of the tax burden by allowing prices to fall in order to retain more customers. The fact that all sellers have raised prices doesn't mean they have been protected from the effects of the tax: some buyers still leave the market.

Because of this tax, the resulting price will be somewhere between \$1.00 and \$1.50. Depending on the nature of the market, the buyer will bear part by paying more than \$1.00 and the seller will bear part by receiving less than \$1.50. Buyers who can't afford the higher price and sellers who can't afford the cut in income will be forced out of the market.

Those who view the corporate tax as either a tax on business or a tax on consumers are right in part, but fail to grasp the entire picture. Because of the high degree of interdependence in the developed marketplace, no governmental act can affect just one group: the well-being of one depends on the continued well-being of all others. Thus, the corporate tax doesn't fall exclusively on businesses or consumers, but on all those who wish to cooperate peacefully for their mutual benefit. Rather than being a tax on a specific group of people, this disruption of peaceful exchange is a tax on cooperation. ☉

Liberty and Taxes

IDEAS ON



LIBERTY

THE VOTERS of one period should not tax those of a later period. Those of the later period are not represented in the instant taxing body, and hence today's taxation of the citizens of tomorrow distinctly violates the principle of taxation by representation of *those who pay the taxes*. This means that to increase its expenditures government should not incur debt, because the burden of its redemption is thereby imposed on future taxpayers.

Is Public Education Necessary?

AS EDMUND OPITZ has said, where we once had public (State-connected) churches and private schools, the situation is now completely reversed. Whether the public schools are engaged in imposing a new faith, that of secular humanism, on an unsuspecting populace is a matter of much discussion. Such an imposition is surely happening in some places. But families and churches will combat it. The greater danger in public education is that State-supported schools must fail to give anti-Statist philosophies (in economics and political science) an even break. Who, in a public school, would recommend Hilaire Belloc's *The Servile State* as alternative reading in a course? I wouldn't hope for anything better than a clash of opinion about Statism in a public school class, but I'm still waiting to see it.

Leonard Read once said that the struggle to separate school and State should be high on the libertarian agenda of the future. The recent upsurge in private schools is an indication the battle is already on. But declining scores on Scholastic Aptitude Tests (SAT) have had more to do with the change than any increase in philosophical understanding. We have been waiting for a long time for a book that would correctly assess the totalitarian potential in a universal "free" (i.e., tax-supported) public school system that relies on compulsion to recruit its students. But now the book is here.

Samuel L. Blumenfeld, the author of a previous book called *How to Start Your Own Private School—and Why You Need One*, has gone back deeply into history to write the story of the "Prussianizing" of American

education in the early Nineteenth Century.

His new book has a sharp title—*Is Public Education Necessary?* (Devin-Adair, P. O. Drawer A, Old Greenwich, Conn. 06870, \$12.95). The big point that he makes is that the public school system was fastened upon us by a band of fanatics who were primarily concerned with imposing their elitist power on a public that had already achieved almost universal literacy by patronizing the private academies of the time.

Almost from the beginning America had some tax-supported public schools. The Boston Calvinists believed in a back-stopping arrangement that would give indigent students a chance at making their public Boston Latin School, which offered the classical training necessary to entering Harvard. But private academies were the general rule in most of the states in the early nineteenth-century years.

Literacy levels were higher then than they are now. The general system was peculiarly American. In Pennsylvania, for example, the law provided for tuition grants to help poor children enter the private academies. But most people paid for their own education. This would have become the "American way" if it hadn't been for the Boston meddlers who were breaking from their historic Calvinism to proclaim that human nature was perfectible and that

it was the business of the State to train the young mind in the ways of perfectibility.

Harvard University became the forcing house of the new anti-original-sin doctrine when it was taken over by the Unitarians in 1805. The Unitarians were not averse to using the State to combat Calvinist influence. They sent their promising young men to Germany to study at Gottingen. It was there that George Ticknor and Edward Everett became converts to the Prussian system of State-directed compulsory education. With the help of an enthusiastic study of Prussian and Hegelian educational philosophy by Victor Cousin, a Frenchman, Ticknor and Everett made State-dominated public education a Unitarian "must."

Mr. Blumenfeld does not allege there was any conscious impulse toward socialism among the Harvard Unitarians. They had not yet yielded Harvard Power to Galbraithians. But it seems significant to him that the Owenites—the followers of Robert Owen—should also be working to impose compulsory State education on Americans in the 1830s. The Owenites had socialist ends in view, but they were willing to let the Unitarians' Horace Mann do the preliminary work in accustoming the American public to the idea that the State could best impose standards of virtue on the youthful mind by

training all the teachers in so-called normal schools. The Owenites, along with Josiah Holbrook of the Lyceum movement, were willing to wait for the day when socialism itself might be defined as the national way of virtue.

Horace Mann, who combined zealotry with a prodigious faculty for political manipulation, had his way all too easily with a country that had not had the opportunity to see how Prussianism could mutate into Bismarckism and, at the last, into Hitlerism. The Unitarians' belief that the State could be the inculcator of an anti-Trinitarian Christian morality was rudely shattered when American education, with Supreme Court blessing, went totally secular. By then it was too late even to save the day for voluntary prayer in the schools.

Mr. Blumenfeld's book is a blow in a good cause. It will help the growing private school movement. But it will take far more than a single book to separate school from State. Public education is a tremendous vested interest: Mr. Blumenfeld says it represents an annual cash flow of \$80 billion. There are more than two million educators who are committed, through their National Education Association and other organizations, to increase the volume of the flow.

Up to the moment, local control of public education in the fifty states

has prevented nationalization of the system in the ultimate Prussian manner. But the existence of a cabinet-rank federal Department of Education could be an omen if the present plans to abolish it aren't carried through.

For myself, I don't expect to live long enough to see the work of Horace Mann undone. But I do expect to see a dramatic increase in competition between the public and the private school. And, with the publication of such books as *Is Public Education Necessary?*, Leonard Read's hoped-for crusade to separate school and State will at least get into a strong uphill second gear. ☉

EQUALITY, THE THIRD WORLD, AND ECONOMIC DELUSION

by P. T. Bauer

(Harvard University Press, 79 Garden St.,
Cambridge, MA 02138), 1981
293 pages ■ \$17.50 cloth

Reviewed by Roger R. Ream

PROFESSOR PETER T. BAUER of the London School of Economics is not an orthodox development economist. Rather than following the fashion and advocating the massive transfer of resources from developed countries to Third World governments, Bauer is the foremost critic of such

foreign aid. It appears that many of his proposals are beginning to get the consideration they merit.

His latest volume is a collection of fifteen essays on a variety of topics. Some are revised and extended versions of articles which have appeared elsewhere. Bringing them together in one volume, Bauer offers a superb overview of the major issues in development economics. Anyone concerned with this subject should study the ideas presented in this book.

Bauer begins by undermining many of the popularly accepted justifications for massive income transfers to less developed nations. "In an open and free society," he writes, "political action which deliberately aimed to minimize, or even remove, economic differences would entail such extensive coercion that the society would cease to be open and free. The successful pursuit of the unholy grail of economic equality would exchange the promised reduction or removal of differences in income and wealth for much greater actual inequality of power between rulers and subjects. There is an underlying contradiction in egalitarianism in open societies." Indeed, economic equality is a chimera.

Unfortunately, among mainstream development economists it is widely assumed that the economic positions of people are properly the concern of official policy. As Bauer

comments, "Political power enables rulers forcibly to restrict the choices open to their subjects. But possession of wealth does not by itself confer such coercive power in this crucial sense. . . . In any case, wealth as such does not imply coercive power. Indeed, those who are rich are vulnerable to envy and to criticisms founded on an unreasoning presumption in favour of economic equality. These attitudes have at times led to the persecution and even destruction of productive or prosperous groups, often ethnic minorities. Possession of wealth offers no sure protection against such dangers."

Not only have the successful historically been victims of this envy and egalitarianism, the intended beneficiaries—the poor—also suffer. In many Western nations, the state provides for the necessities of life and the unexpected occurrences. Social security for old age, socialized medicine for ill-health, food stamps and aid to dependent children for poor, all these are financed by taxation. "As a result many people's post-tax income becomes like pocket-money which is not required for major necessities and hazards of life because these are paid for by taxes largely levied on themselves. This policy treats adults as if they were children. Adults manage incomes; children receive pocket-money. The redistribution of responsibilities implied in the operation of the welfare

state means the reduction of the status of adults to that of children."

This analysis of the effects of the welfare state within a country applies to income transfers on a global scale, known as foreign aid. There is a condescending attitude implicit in the policies recommended by orthodox development economists. As Bauer describes this outlook, "The poor are seen as helpless victims of their environment, people at the mercy of external forces and without wills of their own. The implication is that they are without the primary human characteristic of responsibility. . . . Poverty is thus a condition caused by external forces and not by personal conduct."

Bauer presents a convincing case for the proposition that "economic achievement depends on people's attributes, attitudes, motivations, mores and political arrangements. . . . Moreover, policies of many Third World governments are plainly damaging to economic achievement." Here, a recommendation of Bauer's has recently gained a limited degree of acceptance by the World Bank. Bauer proposes that in allocating aid, donors "should favour governments which within their human and financial resources try to perform the indispensable tasks of government, but who refrain from close control of the economy—briefly, governments who govern rather than plan. This would promote liberal

economic systems, minimize coercion, reduce political tensions and favour material progress."

Bauer shatters the misdirected attempts to promote Western guilt for Third World poverty. "The West has not caused the relative poverty of the Third World," Bauer writes. "The opposite is the case. The contacts established by the West have resulted in improved living conditions, longer life expectation and much wider choice for hundreds of millions of people in the Third World. . . . Indeed, millions of people who would otherwise have died survived because of Western techniques and ideas, notably medicine and public security which came with colonial rule."

The concept of exploitation is another chimera. The material progress in the developed West is not caused by depriving the Third World of its resources. In truth, "Western consumption is more than paid for by Western production. This production not only finances domestic consumption but also provides the capital for domestic and foreign investment as well as foreign aid."

The West is not totally blameless for the plight of Third World countries. Bauer identifies several areas of fault. In particular, Western activities since the Second World War have done much to politicize economic life in the Third World. The politicalization of economic life is

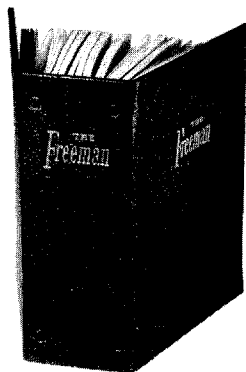
one of the primary inhibitors of economic progress. "In a subtle way, aid tends to perpetuate ideas and modes of conduct adverse to material progress." Chiefly, Bauer observes, "Aid promotes the delusion that a society can progress from indigence to prosperity without the intermediate stage of economic effort and achievement."

Bauer is perhaps at his best when destroying the prevailing myths in development economics. However, he also presents proposals for the reform of official aid, "while looking forward to its eventual termination and doing [the] best to bring that about." Ideally, he would leave most aid to voluntary charities, for they are "usually more interested in assisting the poorest and most dis-

tressed than are Third World rulers." The West must also reduce its barriers against Third World exports, a move which is unlikely to find much support among protectionist-minded businessmen in this country.

It is evident that Professor Bauer has a genuine concern for the poor of the Third World. Unfortunately, his thoughtful analysis and bold policy suggestions have been largely ignored by mainstream development economists. But they are beginning to gain consideration. The sad fact is that until they begin to set the tone for discussions of Third World poverty, much unnecessary suffering will continue to be endured in the underdeveloped world.

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