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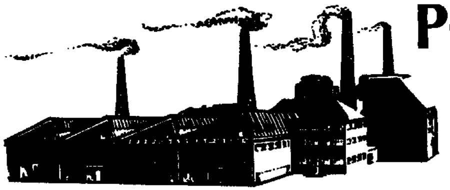
John Jefferson Davis

PROFITS AND POLLUTION



"Man is poisoning his world," declares science writer Joseph Myler. "He has been labelled, with strong justification, the dirty animal." According to Myler, man has ". . . managed to make his rivers rotten. He has transformed green pastures into deserts. He has clogged the air with chemicals which menace health and dust which is changing the climate. He is a menace to himself and other species."

Such a litany of environmental woes has become familiar to anyone living in twentieth-century America. In many cases the unspoken assumption is made that industrial capitalism inevitably produces insoluble problems of pollution. While such a perspective points to matters of genuine concern for anyone living in the modern world, such constructions also have their own limitations. All too often such descriptions lack a sense of proper historical perspective, tend to exaggerate the magnitude of the problem, and frequently ignore signs of significant improvement.

Popular discussions of environmental problems tend to give the impression, for example, that pollution is a completely man-made and modern phenomenon, a creature of the industrial age. This is hardly the case. A single volcano can release as much dust into the atmosphere as several years' industrial activity.[1] An average hurricane releases the energy of 100,000 hydrogen bombs. The ten million tons of man-made pollutants released in the atmosphere must be measured against the 1,600

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million tons of methane gas emitted each year by natural swamps. Forests and other forms of vegetation discharge 170 million tons of various hydrocarbons into the atmosphere each year. These latter figures, cited by historian Paul Johnson in his book *The Enemies of Society,*[2] do not mean that we should have no concern for the problems of industrial pollution. They do, however, provide a much needed check against magnifying such problems out of all due proportion.

Exaggerated Charges

Examples of exaggerated claims of environmental hazards are not difficult to find. Rachel Carson in her famous book *Silent Spring* alarmed the public with warnings about the allegedly devastating effects of chemical pesticides such as DDT. According to a special committee appointed by the National Academy of Sciences, such claims by Carson and other environmentalists were exaggerated. The special committee, appointed to advise the Environmental Protection Agency, concluded that "the chronic toxicity studies on DDT have provided no indication that the insecticide is unsafe for humans when used in accordance with commonly recognized practice."[3]

The agricultural scientist Norman E. Borlaug, winner of the 1970 Nobel Peace Prize for his work on new strains of wheat which made the "green revolution" possible, gave the following testimony before a congressional committee in 1971: "It is a tragic error to believe that agricultural chemicals are a prime factor in the deterioration of the environment. The indiscriminate cancellation, suspension, or outright banning of such pesticides as DDT is a game of dominoes we will live to regret."[4] Similar sentiments are voiced by agriculture consultant William Boyd, who observed that "DDT has saved more lives, prevented more illness and protected more food, in the parts of the world where it is most needed, than any other chemical synthesized by man."[5] While any chemical substance can be misused, the possible dangers of a pesticide such as DDT must be measured against the very real and quite vast benefits it has produced in the alleviation of human hunger and the saving of human lives. Environmental alarmism would endanger more lives than it seeks to protect.

After a bad oil spill in the Santa Barbara Channel, *Life* magazine reported that the channel was "a sea gone dead." Yet more careful studies by Dr. Dale Strangham found that such claims were exaggerated. There was no increase in mortality among whales or seals, and no ill effects on animal or vegetable plankton were detected. "Of 12,000 birds in the channel at the time of the spill, 3,500 to 4,000 died from all causes," according to Strangham. "Yet by May," he noted, "the bird population had risen to 85,000 because of seasonal migrations."[6]

Recent studies in oceanography have indicated that the seas have greater powers to cleanse themselves than anyone had imagined a decade ago. "There was a view ten years ago that the ocean was a very fragile thing," commented Derek Spencer, a researcher at the Woods Hole Oceanographic Institution in Massachusetts in a *Newsweek* interview. "The ocean," he said, "has some important self-cleaning processes that we didn't know about until recently."[7] The dumping of industrial wastes must still be carefully monitored, but fears of the imminent "eco-death" of the world's oceans seem to have faded.

An Unbalanced Picture

The reporting of environmental issues has focused on the "crises," and has tended to ignore areas of genuine improvement. The result has been to leave an unbalanced picture of environmental realities in the public's mind.

In a detailed article in *Science,* Prof. J. L. Simon of the University of Illinois called attention to the fact that the total acreage in the United States devoted to wildlife areas and state and national parks increased from 8 million acres in 1920 to 73 million acres in 1974. And despite fears among some environmentalists that the country's open land is rapidly being turned into parking lots and shopping centers, it is still the case that *all* the land used for urban areas plus roadways amounts to less than three percent of the area of the United States. Lake Erie, pronounced environmentally dead some time ago by Barry Commoner, has improved significantly, and the fish catch is actually increasing.[8]

Substantial gains have been made in the area of air quality. According to a report in the *Los Angeles Times,* many large industries, such as oil refineries and chemical plants, have already succeeded in controlling 90 to 95 per cent of their airborne emissions.[9]

The conventional wisdom assumes that greater energy use has led to a deterioration of the human environment. While there undeniably has been some environmental damage, such an analysis is far too simplistic and overlooks the positive gains. James A. Weber has pointed to the fact that greater energy use, by reducing the amount of dangerous and arduous work done by humans, has greatly reduced the occasions for fatal or disabling accidents. He notes that the National Safety Council has reported that "between 1912 and 1977 accidental deaths per 100,000 population were reduced 41 per cent from 82 to 48."[10] These figures are all the more significant when one considers the dramatic increase in the use of automobiles during this period.

Life Expectancy

The most important single indicator of overall environmental quality is life expectancy. In the United States, life expectancy has continued to rise, and at an increasing rate, as Prof. Simon has pointed out. During the period 1970–1976, there was a gain of 2.1 years, compared with a gain of only 0.8 years during the entire decade of the 1960s.[11]

The "environment" includes not only air and water, but also sanitation, medical care, education, and working conditions. When twentieth century conditions in America are compared with those of a century ago, then the dramatic progress is apparent. The improved life expectancy figures bear witness to this improvement.

In all fairness it must be acknowledged that the environmental lobby is to be given credit for some of the progress made. At the same time, however, we have seen that a good deal of the "environmental crisis" has been overplayed by the media, and the real environmental gains overlooked. In any case, the contention that a growing free market economy inevitably destroys the environment is simply not supported by the facts.

A second major area of environmental concern involves the problem of resource depletion. Isn't it the case that capitalism, predicated on continuing economic growth, threatens to deplete all the world's resources?

Back in 1972, a team of Massachusetts Institute of Technology scientists in the headline-grabbing book *Limits to Growth* were sounding apocalyptic warnings: "Possibly within as little as 70 years, our social and economic system will collapse unless drastic changes are made very soon." The implication was that either the capitalistic system or economic growth or possibly both would have to be abandoned in order to avoid environmental and social catastrophe. The MIT scientists have since dramatically revised their predictions, but the impression lives on that our resources are in imminent danger of running out.

There are at least four major weaknesses in the "resource depletion—no growth" type of argument against the free market system. In the first place, history has shown that past estimates of resource reserves have tended to be notoriously inaccurate. A 1944 survey indicated that by 1973 the United States would have exhausted its supplies of tin, nickel, lead, and manganese.[12] In fact, however, more deposits of these metals were discovered in the United

States than during the previous 25 years. Progress in mining and refining technology has made possible the recovery of copper from ore that only a decade ago was worthless rock.

A 1918 estimate at the site of the Climax molybdenum mine placed reserves at six million tons of ore. "Since then," noted an article in the *Wall Street Journal,* "426 million tons have been extracted. And today there are still 433 million tons of *proven* ore reserves down there."[13]

In 1975 the U.S. Geological Survey estimated that natural gas reserves were in danger of running out shortly after the year 2000. Since then, deregulation of the industry and new computer-assisted exploration techniques have dramatically altered the picture. New discoveries of natural gas in the Rockies, the Appalachians, the Gulf Coast, and in Wyoming and Utah, have led some scientists to predict that known natural gas reserves can take the United States well into the twenty-first century, and possibly even to the end of it.[14]

Petroleum Supplies

Events of recent years, especially the rise of the OPEC oil cartel, have focused the public's attention on our supplies of petroleum. Here again, estimates of known reserves have been wide of the mark. In 1942 estimates of world reserves of crude oil were placed at 600 billion barrels. In 1970, geologists at Mobil were estimating two trillion. In 1973, Peter Odell, reporting in the *Geographic Journal,* was estimating a resource base of four trillion barrels by the year 2000.[15]

Part of the problem lies in an inadequate definition used by the U.S. Geological Survey, according to Dr. Joseph Barnea, a former director of natural resource studies at the United Nations. The *Wall Street Journal* editorial citing Dr. Barnea notes that the Survey defines crude oil as "a natural mixture of hydrocarbons occurring underground in a liquid state in porous-rock reservoirs and remaining in a liquid state as it flows from a well at atmospheric pressure." According to Barnea, this definition excludes perhaps 85 percent of the crude oil that can be brought up under pressure, plus all non-liquid petroleum found in tar sand and oil shale deposits. The result is that many published reports concerning recoverable oil overlook much of the oil actually in place. "There are plenty of hydrocarbons to last until solar power comes in," the editorial concludes, "so long as we will pay the cost of retrieving them."[16]

A second weakness in many of the more apocalyptic analyses of resource depletion is that they tend to overlook the normal workings of the law of supply and demand. Rising prices for a commodity tend to keep demand in check. And, note William

J. Baumol and Wallace Oates of Princeton, higher prices also provide increased incentives to recover and recycle used resources.[17]

Since the quadrupling of oil prices of the OPEC cartel, oil consumption in the U.S. and other countries has been decreasing sharply. Fred Singer, a professor of environmental science, noted that throughout the world "oil is being replaced wherever possible by cheaper fuels . . . These shifts, coupled with conservation, will cut world consumption of oil in half by the next decade."[18] Singer expects North America to become essentially self-sufficient in oil, with hardly any imports needed from overseas producers.

Changing Conditions

Predictions of imminent depletion of minerals and energy frequently overlook the significance of changing patterns of work. By the mid-1970s America's work force had experienced a remarkable transformation. More people were involved in the manipulation of information than were employed in mining, agriculture, manufacturing, and personal services combined. In fact, according to futurologist Alvin Toffler, only nine per cent of the American population (20 million workers) actually manufacture goods. The other 65 million workers provide services and manipulate symbols.[19] This dramatic trend toward an information and service-based economy means that economic growth and wealth are no longer primarily dependent on the direct extraction of resources from the ground. The burgeoning field of microcomputers is a prime example of how new jobs and income can be generated from new ideas and human creativity without destroying the environment.

Pessimistic forecasts concerning resource availability do not take adequate account of the dramatic new gains in efficiency and productivity that are made possible through technological advances. While it is theoretically true that the earth's resources are finite, the practical question is *how* finite, and whether or not the "limits to growth" have actually been reached. History shows that human imagination and inventiveness have again and again stretched those limits beyond what society thought possible.

Today, a single communications satellite can provide the intercontinental telephone connections that in an earlier day would have required thousands of tons of copper. In real terms, a new invention has increased the supply of copper available for alternate uses.

New Technologies

New technologies will be arriving during the 1990s, with great potential for dramatically altering the worlds of work and leisure. It is expected that by 1990 computers will be one hundred times faster than today's most powerful models. A single thumbnail-sized silicon chip will be capable of holding not 65,000 bits of data, but 1,000,000. "Computers will be about the size of a basketball and will do more than today's largest mainframes," predicted William G. Howard, Jr. of Motorola's Semiconductor Group in an interview with *Business Week*.[20]

New ceramics are being developed which will be ductile like metals, conduct electricity, and be much stronger and more durable than the products now available. These ceramics are made from metal oxides which constitute almost 90 per cent of the earth's crust, thus assuring a virtually limitless supply of raw materials for the new products.

New techniques of corrosion control are being developed which could dramatically reduce the figure of \$70–90 *billion* worth of damage done each year. New technology can thus mean entirely new plateaus for the conservation of goods and resources.[21]

In the field of biotechnology, exciting new developments are in the offing. Researchers have created new varieties of bacteria that can convert industrial feedstocks into sugar and turn wood wastes into alcohol. By the 1990s these new processes could represent new multibillion dollar industries.

Significant new breakthroughs are on the horizon in the area of energy resources. Japan is already experimenting with floating platforms which generate electricity from wave power. Technology for converting garbage to fuel should become increasingly common. Within a decade cost-efficient photovoltaic cells which convert sunlight directly into electricity should be commercially available for home use. One firm, Arco Solar, claims that it will be selling economical home-sized arrays by the mid-1980s.[22]

Even the scientists who published the pessimistic *Limits to Growth* in 1972 are now revising their former scenarios. In their latest book, *Beyond the Age of Waste,* these scientists now state that "nuclear energy alone is capable of supplying four times the present world population with twice the current U.S. level of per capita energy consumption." Solar and geothermal will add to the energy mix and substitutes can be found for the few raw materials which may be really scarce. *Beyond the Age of Waste* represents a remarkable turnaround from the dire predictions of 1972.

Bad News Tends to Conceal the More Hopeful Outlook

If there are indeed some legitimate grounds for a hopeful outlook on the world's energy and resource future, why does so much "bad news"

The Ecological Panic

I well remember when Rachel Carson's work, *The Silent Spring,* first appeared in *The New Yorker,* and the surprise and concern it rightly aroused. We were tending to ignore some of the destructive side effects of very rapid industrial expansion. The wave of concern that followed was justified, and the steps then taken, notably the clean air policies, and the policies for cleansing lakes and waterways have been spectacularly successful. Thanks to smokeless fuel, London fogs, which were real killers, have been virtually eliminated. The last really serious London fog was in 1952. The Thames is now cleaner, and has greater quantities of fish, and more varieties in it, than at any time since before the days of Spenser or Shakespeare. Similar successes are now being registered in the U.S., which adopted such legally enforceable remedies somewhat later than Britain did. These are examples of what can be done by thoughtful, unemotional, systematic and scientifically justified application of conservation and anti-pollution policies.

PAUL W. JOHNSON, "Has Capitalism a Future?"

abound in this area? This provocative question has been both raised and given some possible answers by Prof. Julian Simon. Some groups and individuals have, in effect, a vested interest in the dissemination of gloom-and-doom scenarios. "Bad news sells books, newspapers, and magazines," notes Simon; "good news is not half as interesting." Is it any wonder, he asks, that there are plenty of best-sellers warning about pollution, population growth, and natural-resource depletion, but few telling the facts about environmental improvement? What John Maddox has called the "doomsday syndrome" has spawned a profitable growth industry in America.

Sociologist Peter Berger has described the growth of the "New Class" in America, a class comprising many in the media, the universities, and government agencies. The New Class has a vested interest in environmental "bad news." Each new crisis helps to sell air time, create demand for new books, justify new studies and research grants, and new rules and regulations which increase the power of bureaucrats employed in government agencies. Members of the New Class, Berger notes, tend to be hostile toward the idea of economic growth and toward the business community in general.[23]

Apart from any vested interests involved, some environmentalists may be prone to paint darker pictures than the facts really warrant out of a desire to mobilize individuals and institutions to action. In the long run, however, such "crying wolf" will lead to a serious loss of credibility for the legitimate concerns of environmental stewardship. As Philip Handler, then president of the National Academy of Sciences once commented, "The nations of the world may yet pay a dreadful price for the public behavior of scientists who depart from . . . fact to indulge . . . in hyperbole."[24]

The Christian will certainly heed the legitimate warnings concerning possible threats to the environment, and will be supportive of efforts to conserve the world's resources. At the same time, in light of the biblical convenant of dominion given in Genesis, the Christian community should seek to combine an ethic of conservation with one of creativity and innovation. As image bearers of God, men and women are endowed with creative minds that can invent new processes and devices that can produce a richer life for all. "No growth" mentalities harm those who most need the fruits of new productivity, namely the impoverished peoples of the underdeveloped nations. The biblical ethic of environmental stewardship challenges the Christian community to combine conservation and productivity, and to face the problems of the present with realism, while looking to the future with faith and courage and hope.

—FOOTNOTES—

[1]John Maddox, *The Doomsday Syndrome* (1972), p. 140.

[2]Paul Johnson, *The Enemies of Society* (1977), pp. 91, 92.

[3]Maddox, *op. cit.*, p. 131.

[4]*Ibid.*, p. 137.

[5]*World Research Ink*, Nov./Dec. 1979, p. 17.

[6]*Ibid.*

[7]*Newsweek*, Aug. 31, 1981, p. 68.

[8]J. L. Simon, *Science*, June 27, 1980, pp. 1431–37.

[9]*Los Angeles Times*, Aug. 21, 1978, in *World Research Ink*, Nov./Dec. 1979, p. 18.

[10]James A. Weber, *The Freeman*, April, 1981, p. 199.

[11]Simon, *op. cit.*, p. 1436.

[12]*Newsday*, Aug. 28, 1981, p. 62.

[13]*Wall Street Journal*, June 23, 1981, p. 53.

[14]James Miller, *Reader's Digest*, April, 1981, pp. 65–71.

[15]*Wall Street Journal*, Sept. 14, 1977, p. 22.

[16]*Ibid.*

[17]William J. Baumol and Wallace E. Oates, *Economics, Environmental Policy and the Quality of Life* (1979), p. 107.

[18]*Newsweek*, May 18, 1981, p. 33.

[19]*Boston Globe*, May 12, 1981, p. 23.

[20]*Business Week*, July 6, 1981, pp. 48–52, 56.

[21]*Ibid.*

[22]*Mother Earth News*, July/Aug. 1981, p. 124.

[23]Peter Berger, *Worldview*, April, 1978, p. 10.

[24]In Simon, *op. cit.*, p. 1437.

Russell Shannon

New Dimensions of Population Growth

A CHART in the January 1982 issue of *Reader's Digest* predicts an explosive growth in the world's population.[1] Are we in dire danger of overpopulating the world and causing widespread famine?

It all depends on how you look at things.

About a hundred years ago, an Englishman named Edwin Abbott wrote a book called *Flatland.* In it he depicts a two-dimensional world populated by lines, triangles, squares, other polygonal figures, and circles.[2]

In a thoroughly charming manner, Abbott explains how the Flatlanders organized society (those with more sides had greater rank), how they recognized each other (sometimes by feeling), and how they built their homes (with narrow entrances for the women, who were all straight lines and could readily damage other members of society).

What Abbott's imaginative book clearly shows is that the assumptions we make about society have a great deal to do with the sort of future we can predict. That certainly holds true for the problem of population growth.

In his recent book, *The Ultimate Resource,* economist Julian Simon presents data that cast severe doubt on the likelihood that the presently rapid growth of population will continue. At least twice in history—once when men first began to use tools, and again about 10,000 years ago, when they started to farm—population grew very rapidly, only to taper

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off and grow at a much slower rate.[3]

But what if the present trend does continue? How will we feed and clothe ourselves—not to mention providing homes and energy?

Again, the outcome depends squarely on how we look at things—what assumptions we make about mankind's ability to produce as well as to reproduce.

Consider a family sitting down to share an apple pie. If another person arrives to join them, there will clearly be less for those who got there first. Such a view as this lies implicitly behind the thinking of all those people who urge drastic birth control measures.

But that view ignores the productive potential of new members of society. After all, can't they add to the world's output of goods and services?

Can we, though, anticipate that they will add a proportional amount? Two hundred years ago, Thomas Malthus predicted that they would not.[4] Thus was applied the famous "law of diminishing returns" which still plagues the thinking of people who fear rapid population growth.

Malthus's prophecy, however, did not come true. Instead of living standards falling as population increased, they have gone up. As Julian Simon and others suggest, there are several important reasons why this has happened.

One is the advantage of division of labor which Adam Smith described. It enormously enhances our ability to produce.[5]

Moreover, denser population makes both transportation and communication easier. Simon points by way of example to the agonizing difficulties of transporting food in early America; he also quotes one source as noting that "it was cheaper to move a ton of iron across the Atlantic than to carry it ten miles through Pennsylvania."[6]

Most importantly, Simon argues, the growth of population simply means there will be more people to enjoy what life has to offer and to conceive of dramatic new ways to deal with our problems.

In Abbott's fanciful book, one of the residents of Flatland takes an excursion into the world of three dimensions. Thus the book can be used—as Carl Sagan employed it for his TV series "Cosmos"—as a device to provoke us into trying to imagine what a fourth dimension must be like.[7]

So, too, with the matter of population growth. We must not allow ourselves to become trapped into thinking solely in terms of a future whose dimensions are limited.

Over the long run, Simon notes, resource costs have steadily fallen as man has used his creative wit to contrive new means of coping with scarcity. He sees scarcity, in fact, not as a formidable barrier but rather as an exciting challenge.

Simon has left behind the flatland of the folk who despair at population growth. In his hopeful vision, "the ultimate resource is people—skilled, spirited, and hopeful people who will exert their wills and imaginations for their own benefit, and so, inevitably, for the benefit of us all."[8]

—FOOTNOTES—

[1]John Noble Wilford, "The People Boom Off the Chart!" *Reader's Digest,* January 1982, pp. 114–15.

[2]Edwin A. Abbott, *Flatland: A Romance of Many Dimensions* (6th ed.; New York: Dover Publications, 1952).

[3]Julian Simon, *The Ultimate Resource* (Princeton: Princeton University Press, 1981), pp. 161ff.

[4]T. R. Malthus, *An Essay on Population* (New York: E. P. Dutton & Co., 1958), Book I, Chapter I.

[5]Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), Book I, Chapter I.

[6]Simon, p. 191.

[7]Carl Sagan, *Cosmos* (New York: Random House, 1980), pp. 262–63.

[8]Simon, p. 348.

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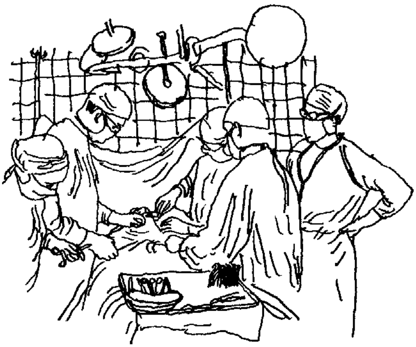
Too Many People?

THE ANSWER to the question, "What is over-population?" is that it is an imbalance between the number of people living and their food supply. This is a condition the world has faced during most of its history. As a result, we can answer the question, "Does the world face over-population?" that it indeed does face over-population, hunger, and famine progressively as it becomes more and more socialistic. Socialism has a poor record when it comes to eliminating problems: its answer adds up to eliminating people. In fact, one of socialism's major and chronic problems is simply *people.* Socialism on the one hand destroys production, and, on the other, breeds up the least desirable elements. Its answer is to find the people at fault. Socialism always faces over-population; a free economy does not.

Socialism *decreases* production and it also causes a decline in the middle classes numerically by means of oppressive taxation; it is thus a means of population control with respect to the productive middle classes. On the other hand, socialism *increases* population among the lower classes by means of its welfare subsidies. Thus socialism has an immediate double impact on population. A third impact of socialism on population then becomes its effort to *control and limit* population.

ROUSAS J. RUSHDOONY, *The Myth of Over-Population*



Jane M. Orient, M.D.

COLLECTIVISM IN MEDICINE:

An Exception or a Hook?

SINCE the time of Bismarck, most schemes for collectivism have started with health care. Far more support can be garnered for national health insurance than for nationalizing steel factories. Many claim that medical care is not, or should not be, a kind of industry, governed by the same laws of economics as manufacturing, trade, and other service enterprises. The thought of doctors profiting from human suffering, or of a patient being turned away because of a "negative wallet biopsy," predictably arouses indignation.

Any discussion of economics in medical care is emotionally charged, because people naturally fear sickness, dependency, and death. Their fear may be exploited to cloud their powers of reasoning, making health care an excellent hook for introducing socialist ideas. Though the term "hook" (as a verb) may have entered common parlance via popular books on transactional analysis, the term (as a noun) derives from Lenin's *Thesis on Tactics*. The Communist International advises searching for and taking advantage of all sources of discontent among the masses.[1]

Is Medicine a Unique Endeavor?

Essential to the tactic of using medicine as a hook is to emphasize ways in which it appears to differ from other activities. One inherent difference is asserted to be the influence of physicians on the use of services. Though physicians' fees in 1973 constituted only 19% of total health expenditures,[2] it is believed that "physicians are in the unique position of being able to regulate the demand for their services."[3] They order admission to the hospital, laboratory tests, drugs, and surgical procedures.

Although people can live without dishwashers and automobiles, or

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without hairdressers and teachers, medical care is felt to be a matter of life and death. In some cases, denying medical care may indeed be the equivalent of a death sentence. Therefore, health care has been declared a "right," presumably as a corollary of the right to life. A "two class system of care" (such as one which provides public hospitals for those unable to pay for private care) is considered an infringement of "equal" rights. Because of its necessity, health care must not be treated as a commodity.

The doctor-patient relationship has been invested with an aura of the sacred. The physician must always act in the best interest of the patient, maintain his confidences, behave honorably, and take all care that is humanly possible in his treatment. Grubby business considerations seem sacrilegious when the physician "holds your life in his hands." The idea of profits in proportion to misery seems obnoxious.

Let us compare other human endeavors with medicine. The idea that physicians alone create demand for their services, though repeatedly proclaimed with great authority, is patently implausible. Physicians do not appear on television, advertising for patients. They employ secretaries to say: "I'm sorry, but the doctor can't see you for three weeks." In contrast, many products would be without a market if advertising were not allowed. Automobile mechanics, insurance salesmen, and stockbrokers all may take advantage of our fear and ignorance to sell us more of their services than we really need. The most notorious group for creating a need for their own talents must be lawyers in legislatures and regulatory bodies, who invent laws no layman could possibly interpret.

Limited Powers

While doctors do sometimes save lives, their power over life and death is often exaggerated in the public mind. They neither give life, nor vanquish death. Their occasional triumph in the struggle with the Angel of Death is only temporary. A substantial part of the doctor's time is spent treating colds and backache, which are hardly life-threatening, or diseases like terminal cancer or cirrhosis of the liver, in which he may offer comfort but not cure. The need for a given medical service is seldom absolute. Many illnesses can be treated just as well at home as in the hospital; many diagnostic tests are of marginal value; and many treatments improve somewhat the probability of a good outcome, at the price of introducing new risks of harm from the treatment itself.

Not only do doctors have limited weapons against premature death; they are by no means the only providers of the necessities of life. If their services are conscripted with the justification of the right to life, then what about those who produce food and shelter, which are continual, not merely episodic needs? And while the physician has the responsibility of trying to save the sick and injured, how much heavier are the responsibilities of those who can kill people in the best of health, such as engineers who design bridges or power plants, airplane pilots, and mechanics who repair brakes.

Marketable Qualities

Health itself is not a commodity; it cannot be purchased for any amount of money. Things which can be purchased include drugs, diagnostic tests (and the equipment which makes them possible), and the time of people with expertise. Medical devices do not undergo spontaneous generation. Since somebody must invest money in creating them, to say that one person has a right to their use is incompatible with another's right to his property. Medicine is labor intensive. The nurse, the x-ray technician, the electrician, the cook, and the janitor must be paid, or they stop coming to work. Even the doctor must earn a living, and to take in laundry would interfere with the ability to see patients.

Because the doctor intervenes in areas related to the patient's physical and spiritual integrity, and because the patient is often impaired by sickness or anxiety, a violation of trust in the doctor-patient relationship is particularly reprehensible. Nevertheless, the fundamental demands made on the doctor are not unique. Bankers and lawyers must maintain confidences and put the interest of their clients ahead of their own. Professors must refrain from seducing students. Plumbing contractors must give honest estimates and do careful work. Honor is required of men of every calling in their relationships with others.

Medicine is a quasi-priesthood only to the extent that magic is involved. In fact, magic and art remain important ingredients in healing. However, patients rightfully demand science and technical skill in addition, and for these payment has traditionally been expected. (If technology becomes the only aspect of medical care that is well compensated, the science fiction writers may be prophets: in *The Empire Strikes Back,* all the doctors appear to be robots.)

Do doctors really profit from patients' misery? If the doctor deliberately made the patient sick, then the accusation would be just. Bakers don't profit from causing human hunger, but from relieving it. Plumbers don't profit from the existence of human needs for drinking water and waste disposal, but for providing sanitary means for meeting them.

The Profit Motive in Various Practice Arrangements

To condemn the profit motive in medicine is a hook. By logical extension, one must condemn it everywhere. Yet the question is not whether the profit motive will operate in medicine, as in any field of human action, but how, and to whose advantage, it will work. Profits are incentives, and may consist of money, power, prestige, or leisure time. Are incentives in a market economy more likely to benefit the patient than those in a socialized one?

Aren't most hospitals and clinics nonprofit? Or weren't they before the intrusion of big health care corporations? Although many excellent voluntary hospitals exist, their nonprofit status does not exclude big returns to some people affiliated with them. Returns may not be forthrightly called profits. For example, a dapper young man with a degree in social science is planning a health awareness program intended to prevent illness by counseling people about their lifestyle. "It will be nonprofit," he emphasized.

"Oh, how will you make a living?"

"I'll get a salary, of course."

"What's the difference between your salary, and my taking home the profits of my business?"

A benign smile was the only answer. One difference, of course, is that the salary is paid regardless of whether or not there are profits. If income does not exceed expenditures, then let the equipment suppliers, the landlord, and the bank take the loss. Another difference is that he'll be charging more to tell people they are fat and flabby than I ask for a complete history and physical examination. Furthermore, he will not be paying personal property or business license taxes.

Given that doctors must earn a living (albeit not so much money that they must flaunt their conspicuous consumption), why should the patient want to pay him directly for each service, instead of by salary? The fee for service may encourage the doctor to prescribe unnecessary treatments. Unquestionably, some unscrupulous doctors make a lot of money from useless injections.

One reason for payment for extra services is that people are sometimes willing to do for money things they wouldn't do for love. Examples include driving to the emergency room at midnight, listening to patients with endless vague complaints, or looking up a bleeding rectum on Christmas Eve. The tendency to "buff and turf" when confronted with an unpleasant and perhaps futile task is only human nature, especially when shirking is rewarded as well as volunteering.

The importance of the fee as part of the treatment was first recognized by psychiatrists. If the patient hasn't sufficient investment in getting better, he may be evasive about cooperating with treatments such as psychoanalysis, which is demanding and painful. Perhaps the unshakable faith patients have in the encapsulated lake scum found in health food stores or in the bizarre prescriptions of the quack is related to the outrageous price they pay. Free medicines often accumulate, untried, in the cupboard.

The Patient as Employer

The most important advantage to the patient in being responsible for his own bill is that he thereby becomes a customer, the physician's employer. While the physician is assumed to have greater knowledge, the customer ultimately makes the decisions. If not satisfied, he may freely seek advice elsewhere. Although the physician at times may be tempted to accede to harmful requests, to avoid losing business, the challenge to his integrity is no greater than in a different system, where the threat may be a letter to a congressman. Just as an honest contractor may have to say "I won't put the roof on that way because it will leak; either do it my way or find another contractor," the physician can suggest finding another doctor. Both physician and patient are protected when they have freedom of association.

The beneficiaries of public medicine are no longer customers, but consumers. Unable to exert their influence directly with their dollars, they must be represented by a patient advocate. The relationship between patient and physician may in fact be involuntary for one or both parties. The agency dispensing the paycheck intrudes, dividing the physician's loyalty. The consumer may be considered an adversary of the agency, if he demands more than his "fair share" of services, while the physician is held responsible for preventing "overutilization." The doctor is the "gatekeeper" to expensive consultations and diagnostic tests. The patient has an investment in assuming a sick role, since more services and attention become available to him without additional charge. In a prepaid arrangement, that's the only way to get his money's worth. If the consumer is displeased, he cannot fire the physician as the customer would, but can complain to the ombudsman, the chief of staff, or his senator. His influence may be negligible, or magnified out of all proportion.

Although many wish that medical care were aloof from the marketplace, market phenomena invariably occur even as efforts are made to insulate health services from market pressures. As the price barrier is removed, demand skyrockets. Sitting in the waiting room at the local Veterans Administration hospital reminds one of the gasoline lines, and many people withdraw from prepaid health plans because of the lengthy waits. Waiting time seems inversely proportional to the price of goods or services offered. People in queues have a natural angry reaction: they demand some authority who will see that the greedy providers allocate resources more equitably. Somebody must set up a priority system, or print ration tickets.

Subsidized Demand

While complaints arise that medical care is still not adequately available to some, others cry that already we spend too much on it. Few recognize the explanation: people are always less thrifty when spending other people's money than when spending their own. In collectivized payment plans (whether government or insurance plans), some way of controlling expenditures is clearly imperative. Insurance companies have discovered the price of socializing risks while individualizing benefits. Though providing for catastrophes by means of insurance is responsible and rational, even this approach entails moral hazard, in that beneficiaries may try to extract more from the insurance than is justified.

Fire insurance may reward arson, and health insurance may reward disability.[4] To attempt to insure routine expenses compounds the problem. A patient who really doesn't need an x-ray may want one anyway, "just to be sure," because the insurance will pay for it. The patient who says "spare no expense" is seldom planning to pay the bill himself. While our society encourages people to become risk-averse and demand a Cadillac insurance policy, the Chevrolet makes equally good sense in insurance and in transportation. The insurance premiums are a given. If one chooses a minimum policy for disasters, and invests the difference in premiums, with luck one may have a profitable investment. If not so lucky, routine out of pocket expenses may still cost less than a deluxe policy.

Cost-Control Mechanisms

Having the customer pay a greater part of the bill is generally not the favored proposal for controlling costs or stimulating competition. Usually some type of prepaid plan is envisioned. Not only are the risks to be socialized, but also the benefits. The availability of services is to be based on cost benefit analysis. Since society pays, society must benefit. Are pneumococcal vaccines to be covered? Let us calculate the cost incurred by society from x preventable cases of pneumonia. Lowered productivity, expenses for x-rays and antibiotics, and even some deaths will occur. Is this price greater than that of y immunizations? The analysis is much more complicated than the process of saying: "This vaccine reduces your chance of getting pneumococcal pneumonia. Is it worth $15 to you?" The former also multiplies many times the impact of an error in calculation, which must be based on uncertain data.

Some of the cost control (rationing) mechanisms in prepaid or public health plans are administrative. An algorithm may be devised, directing that a chest x-ray shall be ordered if (and only if) certain indications are present. The physician or other provider, such as a nurse practitioner, may deviate from the recommendations, but will have to justify his action if audited. A "hassle factor" may be introduced. At a Veterans Administration hospital, the signature of the chief of service was required on all requisitions for brain scans, when it was felt that that service was being ordered too often.

If the consumer's incentive to save money has been eliminated, why not invent one for the providers? Many health maintenance organizations have done just that. Instead of paying people for doing tests and performing services, they are paid for *not* doing them. Money that is budgeted but not spent may be divided up among the physicians as a bonus. The profit motive is neatly turned around. Unless we assume that prepaid plans attract only physicians of sterling character, surgeons who previously were tempted to do unnecessary surgery may now be reluctant to do operations from which the patient would benefit.

When entrusting planning and decision-making to a central agency, one assumes that the planners are smarter than individual practitioners and, most importantly, have the right values. Naturally, they may not correspond to the values of certain patients. As one Veterans Administration physician said about "too many" hernia operations: "Let them wear a truss." I have yet to find a patient who preferred that alternative.

All rules and regulations can be circumvented by ingenious people. If Medicare doesn't cover custodial care, the doctor can order an intravenous feeding, and change the category to skilled nursing. Since Medicare doesn't cover housecalls to give enemas or transportation for outpatient diagnostic tests, the patient may elect to be admitted to the hospital for some x-rays. Cost control devices may ultimately increase costs, as people respond to incentives the planners hadn't recognized.

Should the Doctor Be a Slave, a Keeper, or a Servant?

Collectivism in medicine will undoubtedly change the doctor-patient relationship as well as altering the distribution of services. Such proposals are based on the idea that medical care is a right. The strategy of this hook is to divert attention from the question of the impact on personal liberty, by not mentioning the duty corresponding to the right. Physicians potentially become slaves, with the amorphous public (represented, of course, by an authority) as the slaveholder. Rather more likely is that they will become the keepers, depending upon how much influence they exert on the central planners. An ominous development in the medical literature is the frequent use of the term "noncompliant." More familiar in its use by bureaucrats regarding adherence to regulations, it now refers to patients who don't take their medicine or follow their diet.

The emphasis placed on the importance of lifestyle for health has disturbing implications. Normally, I am not inclined to care about how much my neighbor drinks, smokes, or exercises. But if I'm paying the intensive care bills resulting from his gastrointestinal bleeding, emphysema, or heart attack, my interest in his private life mounts. In Communist China, living a healthful life is considered a patriotic duty. Everyone becomes his brother's jailer, as he is taught to be responsible for the behavior of family and neighbors.

The physician will be the servant of whomever pays him (or risk his livelihood). All contracts are validated by "consideration," which is usually money. The same writers who condemn the avarice of physicians under fee for service ask us to rely on the altruism of physicians under other economic arrangements. As patients decline to provide the consideration, they relinquish their decision-making role, which many agencies are all too ready to take over.

Conclusions

A hook is a condemnation of the status quo, without critical examination of the alternatives. Before dismantling our fee for service economy, we should outline our goals and see whether other systems can meet them better.

Is the goal to reduce unnecessary surgery? The rate of tonsillectomies in China is very high, without the incentive of Blue Shield.[5] Do we want to reduce hospital stays? The Mayo Clinic, a totally fee for service organization, has succeeded as well as prepaid plans.[6] The average length of stay is 15 days in the Soviet Union, compared with five in the United States.[7] Do we wish to distribute expensive equipment fairly? The regional planners put the CT scanner, the cause célèbre for cost containment, at St. Luke's Hospital rather than at Harlem, where head trauma victims are more commonly seen. As a result, in a single year only 14% of the 1870 patients in whom the test was recommended actually received it under a "sharing" arrangement.[8] Are we concerned about reducing fear? Patients in the Soviet Union do not have to fear the cost of a serious illness—they have prepaid in stifling if unacknowledged taxes. Instead, they fear the indifference of the doctor, the filth in the operating room, and shortages of the most basic drugs and supplies.[9] Are we interested in making medicine responsive to consumer demand? In the Soviet Union, the logical endpoint of the total institutionalization of medicine has been reached: the Hippocratic Oath is forbidden, because it might interfere with the physician's loyalty to the employer, the state.[10]

"What about the poor?" is the most pervasive, recurrent question of the supporters of socialism. While medicine has a long history of helping the unfortunate, the results are called "inequitable," and the method "patching" or "reformist."[11] Marxists use our duty to help the poor as a hook for undermining the entire economic structure, with no concern for the observable consequences of worsening the plight of the poor and multiplying their number.

Once health benefits are socialized, on the basis that medical care is different from other economic activities, the fundamental similarities will become apparent. To be logically consistent, collectivization must be extended to other enterprises, or undone in medicine. The former course is more probable; turning away from collectivist morality is a phenomenon rarely observed to date. The hook is indeed a fearful weapon.

—FOOTNOTES—

[1]James L. Tyson, *Target America* (Chicago: Regnery Gateway, 1981), p. 19.

[2]Cotton M. Lindsay, ed., *New Directions in Public Health Care: A Prescription for the 1980s* (San Francisco: Institute for Contemporary Studies, 1980), p. 194.

[3]D. S. Brody, "The Patient's Role in Clinical Decision-Making," *Annals of Internal Medicine*, vol. 93, 1980, pp. 718–722.

[4]George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981), p. 108.

[5]William V. McDermott, "The China Syndrome," *Archives of Surgery*, vol. 116, 1981, pp. 245–246.

[6]Fred T. Nobrega, Iqbal Krishan, Robert K. Smoldt, *et al.*, "Hospital Use in a Fee-for-Service System," *Journal of the American Medical Association*, vol. 247, 1982, pp. 805–809.

[7]William A. Knaus, *Inside Russian Medicine* (New York: Everest House, 1981), p. 123.

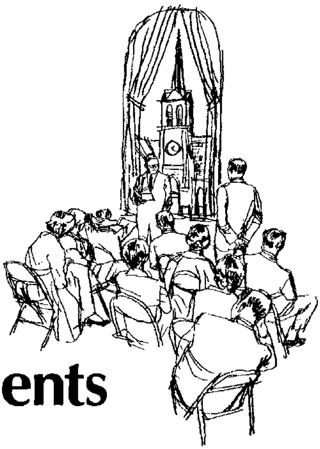
[8]John C. M. Brust, P. C. Taylor Dickinson, Edward B. Healton, "Failure of CT Sharing in a Large Municipal Hospital," *New England Journal of Medicine*, vol. 304, 1981, pp. 1388–1393.

[9]Knaus, *op. cit.*

[10]M. G. Field, *Doctor and Patient in Soviet Russia* (Cambridge, Mass.: Harvard University Press, 1957), p. 174.

[11]Howard Waitzkin, "A Marxist View of Medical Care," *Annals of Internal Medicine*, vol. 89, 1978, pp. 264–278.

Gary McGath



BIG Little Governments

COMPLAINTS about "big government" are commonplace. And it is a genuine evil, if we take the term to mean government that has grown beyond its legitimate function of stopping force and fraud. But the sheer size of a government is a poor measure of how good or bad it is. The British colonial government in 1776, for example, wasn't unusually big for governments of the time—but it certainly was oppressive. In watching for governmental activities that take away our freedoms, we should avoid being misled by a phrase; we should watch out for the abuses not only of the "big" federal government, but of "little" governments as well—that is *local* governments.

Many actions which would be unthinkable to the federal government are routinely performed by local governments. If Congress passed a law limiting the number of new businesses that could be started each year, or requiring every house to occupy a two-acre lot, or banning coin-operated games, the result would be an avalanche of protest. Yet local governments commonly engage in actions like these.

This is not to imply that local governments are worse overall than the federal government. What it does show is the existence of a division of labor between the federal and local governments. The federal government devotes its attention, where possible, to activities that affect the whole nation or large parts of it; local governments concentrate on the activities of such smaller units as individuals, households, and local

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businesses. This is a proper and effective division when the work being done by the governments is legitimate; but when governments fail to respect individual rights, it puts local governments into a position where they can exercise more detailed (though generally less massive) control over people's activities than the federal government can achieve.

The typical issue that faces a local government is not one that will affect millions of cases, but one that deals with a single event—what to do about Second Street, whether to build a new library. And in dealing with such a localized issue, people will be more inclined to exercise their immediate preference and disregard broad principles than they might be if they were debating a question of national importance.

To take an example I know of personally, a small New Hampshire town was recently involved in a debate over whether to amend the town's law regarding housing developments. The side that favored the amendment offered exactly the same argument as the side that opposed it; each side tried to assure the voters that its plan would do the better job of keeping real estate developers out of town. One side might have consisted of conservatives who believed, in national issues, that the government should not tell people how to use their property. The other side might have been liberals who would rebel at any federal policy smacking of discrimination against the poor. But in this debate, each side gave thought only to keeping "undesirables" from moving in.

Local governments are often much more "informal" than the federal government, and local leaders frequently put this informality to good use. I have seen the mayor of a large city and a town meeting moderator each selectively enforce the rules on closing debate on the basis of the outcome he wished to achieve. Compare this sort of free-wheeling manipulation to the strict observance of cloture rules that characterizes important debates in Congress.

Ironically, today's abuses by municipal governments stem at least in part from sincere attempts to limit governmental power. Traditionally, advocates of limited government have tried to keep power from being abused by confining it to the local level. To a certain extent, this approach is valid, even in a day when news from Washington travels at the speed of light. It's certainly easier to talk to local officials and try to change their minds than it is to influence Congress. The same can be said of appealing to local voters in comparison with making a dent in a national election. But if we forget that limiting government is the reason for keeping power close to home, the slogans of "local control" and "home rule" raise a danger of their own.

We can hope that local governments will refrain from restricting freedom where the state and federal governments would show no hesitation. But it is also possible that a local government will get carried away on a particular issue and impose controls that people elsewhere will regard as unjust. If a state or federal government attempts to restrict the municipal authorities' illegitimate activities, it would be a serious mistake to defend those activities in the name of "home rule" or "local rights." Yet "rights" of this sort are often invoked, particularly in opposition to restrictions on tax rates.

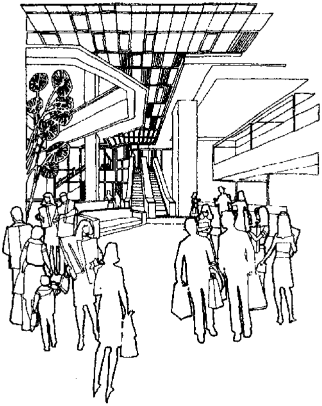
We have to remember that rights as a moral concept apply to individuals, not to governments. Issues that pit one level of government against another should always be judged not by asking which side is violating the other's rights, but by asking which side is violating the rights of individuals.

In saying so much about the perils of "little governments," I should make it clear that I am not claiming that local governments are worse offenders overall than the federal government. (A look at the federal withholding tax on your paycheck stub can make anything the local authorities might do seem insignificant by comparison.) Rather, my points are these: that size alone is not the criterion of improper governmental activity, that each level of government has its own distinctive potential for diminishing freedom, and that the tactic of upholding the rights of the lower levels of government as a defense against the higher levels is an error that leads the debate away from the rights of the individual.

In addition, I would like to make one positive point: it remains true that one person can fight City Hall much more easily than he can fight the Capitol. Defending the principles of freedom in a local debate offers much more of a chance of affecting the outcome than defending them in a national contest does. Not only does this opportunity provide the psychological satisfaction of seeing results, it allows these results to set precedents for further successes on a wider scale. Today, we can answer the claim that no city could survive without zoning laws simply by pointing at Houston. Future local successes would similarly serve as demonstrations that the principles of freedom *do* work.

Let's not forget about the fight against "big government." But if, at the same time, we can work on limiting the powers of "big little governments," we will greatly increase the long-term hopes of freedom.

Gary North



Cut-Throat Opportunities

"Cut-throat competition!" I suppose that when most people hear this phrase, they think of the bankrupting of some company. Whenever a "going out of business" sign appears in the window of a local store, some people may feel that the community has lost an important asset. The downtown district of almost any city is marked by empty storefronts. The consumer may think to himself, "Stores downtown are the victims of cut-throat competition. Something ought to be done about it."

Very often, something already was done about it. An obvious example is Federally financed urban renewal projects. The Federal government in the 1960s began an extensive program of tearing down older neighborhoods, which disrupted the residents, many of whom were forced to move out.[1] When the Federal budget constraints subsequently hampered the completion of downtown renovation projects, some cities were stuck with gaping holes in the ground, or the scattered remains of demolished buildings.

In the meantime, giant shopping malls were being built in the suburbs, closer to the more affluent neighborhoods in the community. Parking space, always a problem for downtown businesses, was available in these residential shopping centers. Downtown businesses could no longer compete so effectively for middle-class dollars. The familiar business establishments of the inner city—pawnshops, taverns, pornographic book stores and theaters, and discount stores selling low-quality

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goods—began to take over the empty stores that had been vacated by those establishments that had moved to the shopping malls, or that had gone bankrupt because they hadn't moved.

City councils attempted to retaliate. They spent money on the construction of downtown malls, renovating the fading buildings that had once been the pride of the city. They established low-cost urban transit facilities, such as buses, that were supposed to bring lots of shoppers into the downtown areas. They built benches for people to sit on and enjoy watching the pedestrians. In most instances, these tactics failed. The more successful of these experiments have been marked by private entrepreneurship, when professionals such as architects or lawyers, whose firms do not depend heavily on "walk-in" traffic, have bought or leased abandoned space, and have converted this space into office buildings. But the retail shops that cater to the middle class and upper class have not returned, despite the face-lifting operations of the renovators.

The "Destroyers"

Whose fault was it? Who killed off the downtown businesses? The original town planners, who neglected to build sufficient parking space? The real estate speculators, who poured billions of dollars into shopping malls all over the country? Henry Ford, who created the initial mass-market demand for the automobiles that carried Americans into the suburbs? The designers and builders of tract houses, who made middle-class housing available to a generation of post-war buyers? Someone must have been guilty of *unfair competition.* Someone employed the tactics of cutthroat competition. Who was guilty?

The answer should be obvious. *Consumers did it.* Consumers decided that they preferred to live in the suburbs, in three-bedroom, ranch-style tract houses. They decided that they enjoyed the mobility offered to them by the automobile, rather than the limited-route, mass-transit trollies and buses. They wanted the convenience of driving to one location and walking through huge air-conditioned buildings that housed hundreds of retail establishments. They grew tired of walking in the heat, or the rain, or the cold of winter, in order to get to and from retail stores. They decided that "free" parking in a large parking lot was preferable to paying for space in crowded downtown parking lots, or worrying about putting a coin in a parking meter every hour. (They actually do pay for parking when they make their purchases from the shops in the shopping malls, since store owners pay for their share of the parking lot costs in their monthly rental fees, and consumers make the funds available to the store owners when they make purchases. But few shoppers spend much time thinking about the hidden costs of free parking. They think of the shopping mall parking space as free. The space downtown clearly is not free, and this clarity makes a difference in the decisions of shoppers.)

We can blame the shopping mall builders for the plight of the downtown stores only by *blaming entrepreneurs for making available new opportunities for consumers*. The builders and lenders took risks. They believed that their malls would be profitable because consumers would enjoy the advantages of shopping in suburban locations. They might have been incorrect. If so, the first malls would have lost fortunes, and few new ones would have been built. But the malls made fortunes, and the projects were imitated by entrepreneurs who wanted to make similar opportunities available to consumers in their regions.

Kirzner vs. Schumpeter

Is a man who takes a risk and makes an opportunity available to consumers really a destroyer? Some economists have used this terminology. Joseph Schumpeter called the entrepreneurial process of innovation "the process of creative destruction."[2] But isn't it misleading to discuss the role of the entrepreneur primarily in terms of the process of destruction rather than a process of *making available new opportunities to consumers who might not have perceived them?* This distinction is the heart of Israel Kirzner's important critique of Schumpeter's analysis. Kirzner writes:

> . . . Schumpeter's entrepreneur acts to *disturb* an existing equilibrium situation. [Note: "equilibrium" is a technical term used here to specify a hypothetical and actually unobtainable situation in which all market participants have perfect knowledge of all prices, and therefore the economy offers no profit opportunities, except through technological or organizational innovation which leads to a new "production mix" of scarce economic resources—G.N.] Entrepreneurial activity *disrupts* the continuing circular flow. The entrepreneur is pictured as *initiating* change and as generating *new* opportunities. Although each burst of entrepreneurial activity leads eventually to a new equilibrium situation, the entrepreneur is presented as a *disequilibrating,* rather than an equilibrating, force. Economic development, which Schumpeter of course makes utterly dependent upon entrepreneurship, is "entirely foreign to what may be observed in . . . the tendency towards equilibrium." [Schumpeter, *The Theory of Economic Development* (Cambridge, Mass.: Harvard University Press, 1934), p. 64.]
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> By contrast my own treatment of the entrepreneur emphasizes the equilibrating aspects of his role. I see the situation upon which the entrepreneurial role impinges as one of inherent disequilibrium rather than of equilibrium — as one churning with opportunities for desirable changes rather than as one of placid

evenness. Although for me, too, it is only through the entrepreneur that changes can arise, I see these changes as *equilibrating changes*. For me the changes the entrepreneur initiates are always toward the hypothetical state of equilibrium; they are changes brought about *in response to* the existing pattern of mistaken decisions, a pattern characterized by missed opportunities. The entrepreneur, in my view, *brings into mutual adjustment* those discordant elements which resulted from prior market ignorance.[3]

Entrepreneurship

The entrepreneur is anyone who struggles with the problem of *uncertainty*. Anyone who tries to *predict the future* and then *acts in terms of his prediction* is an entrepreneur. He sees opportunities for profit that others miss. He can "buy low" and "sell high" because others do not recognize the existence of a higher-than-normal price spread between wholesale and retail. They do not perceive that "producer goods" are underpriced in relation to what some consumer will be willing to pay for the "final product" in the future. (Of course, the "producer good" may be identical physically and technically to the "final product"—land, for example, or a gold coin, or an antique—but the purchase price for the entrepreneur is lower than what he *expects* to be able to sell it for in the future.)

This means that entrepreneurs are not innately a separate class of people within the economy. *Every person is to some extent a speculator,* since we all make predictions about the uncertain future, and we all act in terms of our perception of that future. There are those people, however, who are so adept at predicting the uncertain future, and acting in terms of unexpected (by others) future consumer demand, that they can become specialists. They become full-time speculators, in the sense that other people are full-time manual laborers or full-time accountants, or whatever.

Entrepreneurs deal in *opportunities*—specifically, opportunities that are not perceived as such by competitors. The entrepreneur is like a person who knows where a rare gold coin is lying in a gutter. *He then makes plans:* to walk to that gutter, bend down, pick the coin up, put it into his pocket, take it to a coin shop, sell it for cash, take the cash to a store, and make a purchase with it. He also hopes to do this without calling attention to himself, so that someone else who is physically closer to that gold coin than he is will not take action sooner. He also has to plan for the possibility that a robber will steal it before he can spend it. He must plan for "unforeseen contingencies."

Consider this question: Is the entrepreneur engaged in cut-throat competition when he picks up that gold coin, sells it for cash, and then goes out and spends it? After all, anyone could have picked it up. All he had to do was to shout to a passer-by: "Hey, buddy, look down in the gutter. Yes, *that* gutter. See that gold coin? Can you think of anything you could do with the money it's worth? You can? So can I. So why don't we both go down to the coin shop, cash it in, split the money, and go our own ways?" Would *you* call attention to the gold coin under such circumstances? And if you would, do you think the passer-by would call out to a third person, and would that person call out to a fourth, and so on, until "cut-throat" competition becomes "friendly" competition, by mutual—let alone universal—agreement?

If you think it would be foolish to call attention to the coin lying in the gutter, but you also think it would be immoral to pick it up for your use, since this would mean engaging in cut-throat competition, you could leave it in the gutter. But who benefits? Not the person who lost it. After all, since you have decided to leave it in the gutter, you are in no position to call the police and tell them that you found a coin in the gutter, and ask them to inform you should someone report the loss. And even if you did this, as you should, what if no one claims it? Then what do you do? You refused to call attention to it as it sat there in the gutter. Should you give it to the State? Should you give it to charity? Should you put it back in the gutter? Who benefits now? Maybe it will be washed down a drain and out to sea. Maybe it will be found by a criminal who will use the money to buy a gun and rob someone. In short, *once you know about an opportunity, you cannot escape from the responsibility of taking advantage of it or misusing it.*

Taking Advantage

This is true for every entrepreneurial possibility. Anyone who sees an opportunity to enrich himself must make a decision about taking advantage of the situation. Question: Is taking advantage of a *situation* the same as taking advantage of a *person*? If you refuse to call out and tell a passer-by about the gold coin in the gutter, have you taken advantage of him? After all, the advantage was "within his grasp." He simply failed to recognize it. But if you refuse to call out, and you also refuse to pick up the coin, you are very possibly passing along the opportunity to someone else. Furthermore, if you miss this opportunity, and so does everyone else, and the coin washes down the drain, then you are responsible for not having offered the coin dealer the opportunity of making available the coin for purchase by his customers. No matter what you do, you are going to "take advantage" of someone, even if you only take away his option of taking advantage of the situation himself (e.g., the coin collector's opportunity to add to his collection).

What do we mean when we speak about "taking advantage" of someone? If we argue that by acting to benefit ourselves, we have hurt all those who might have made the same use of the economic resource in question, then the concept becomes *ethically useless*. Did my wife "take advantage" of all unmarried women when she married me? (My ego tells me it must be so; my mind sends out a warning against this approach to the question.) After all, she removed a tremendous opportunity—in my view—from the "market."

If the mere personal use of a scarce resource is understood as "taking advantage" of anyone or everyone else, then life as such is morally questionable. Those who are living above a subsistence level are "taking advantage" of those on the margin of life. When I eat, a starving person is not eating. When I turn up the heat in my home, I am using fuel that might have saved a poor person whose fuel is gone. In fact, *we, the living,* are responsible, in this view, for the deaths of all those whose lack of funds or medical attention (at whatever price) led to their demise.

This is not a hypothetical example. Consider the words of theologian-historian Ronald Sider, whose best-selling book, *Rich Christians in an Age of Hunger* (1977), has become one of the most influential books on seminary and Christian college campuses all over the United States. His introduction to the book sets forth the problem:

> The food crisis is only the visible tip of the iceberg. More fundamental problems lurk just below the surface. Most serious is the unjust division of the earth's food and resources. Thirty per cent of the world's population lives in the developed countries. But this minority of less than one-third eats three-quarters of the world's protein each year. Less than 6 per cent of the world's population lives in the United States, but we regularly demand about 33 per cent of most minerals and energy consumed every year. Americans use 191 times as much energy per person as the average Nigerian. Air conditioners alone in the United States use as much energy as does the entire country of China annually with its 830 million people. One-third of the world's people have an annual per capita income of $100 or less. In the United States it is now about $5,600 per person. And this difference increases each year.[4]

Production and Consumption

I can remember reading textbooks written in the 1950s that affirmed the wonders of American capitalism, and that pointed with pride to the fact that 6 per cent of the world's population produced 40 per cent (or 33 per cent) of the world's goods. But that argument grew embarrassing for those who proclaimed the supposed productivity of socialism. Socialist nations just never caught up. So the socialist critics now complain that 6 per cent of the world's population (Americans) annually *uses up* one-third of the world's annual production, as if this consumption were not simultaneously a process of production, as if production could take place apart from the using up of producer goods. This is *word magic*. It makes productivity appear evil.

It is true that Westerners eat a large proportion of the protein that the world produces each year. This has been used by vegetarian socialists to create a sense of guilt in Western meat-eating readers of socialist literature. You see, our cattle eat protein-rich grains. "Corn-fed beef" is legendary—or notorious, in the eyes of the critics. Because of this, argues Sider, the "feeding burden" of the United States is not a mere 210 million (the number of human mouths to feed), but 1.6 billion.[5] "No wonder more and more people are beginning to ask whether the world can afford a United States or a Western Europe."[6]

The psalmist proclaimed a poetic truth about God's ownership of the world, by identifying these words as God's: "For every beast of the forest is mine, and the cattle upon a thousand hills" (Psalm 50:10). But "liberation theologians" are not impressed. You see, Sider informs us: "The U.S. Department of Agriculture reports that when the total life of the animal is considered, each pound of edible beef represents seven pounds of grain. That means that in addition to all the grass, hay and other food involved, it also took seven pounds of grain to produce a typical pound of beef purchased in the supermarket. Fortunately, the conversion rates for chicken and pork are lower: two or three to one for chicken and three or four to one for pork. Beef is the cadillac of meat products. Should we move to compacts?"[7] He would apparently prefer to rewrite the words of the psalm: "For every chicken of the forest is mine, and the soybeans on seven thousand hills." (With the seven-to-one ratio in effect.)

Changing Just One Thing

Unquestionably, Third World populations sometimes suffer protein deficiencies. But any program of "social salvation through protein exports" is going to encounter problems that the wealth-redistributionists never consider. People's food is fundamental to their culture. Trying to stay on a diet has confounded millions of Americans. Eating habits are very difficult to alter, even when the eater knows that he should change. An education program to get Third World peasants to change their diets is going to be incredibly expensive, and probably futile. "Rice-eating people would often rather starve than eat wheat or barley, which are unknown to them," writes biologist Richard Wagner.[8]

This problem goes beyond mere habits. Sometimes we find that people's diets have conditioned their bodies so completely that the introduction of a new food may produce biological hazards for them. This is sometimes the case with protein. Wagner comments:

> Another even more bizarre instance was seen in Colombia, where a population was found with a 40 percent infestation of *Entamoeba histolytica,* a protozoan that generally burrows into the intestinal wall, causing a serious condition called amoebiasis. However, despite the high level of *Entamoeba* infestation, the incidence of amoebiasis was negligible. The answer to this puzzle was found in the high-starch diet of the people. Because of the low protein intake, production of starch-digesting enzymes was reduced, allowing a much higher level of starch to persist in the intestine. The protozoans were found to be feeding on this starch rather than attacking the intestinal wall. If this population had been given protein supplements without concurrent efforts to control *Entamoeba* infestation, the incidence of amoebiasis would probably have soared, causing more problems than the lack of protein.[9]

Cultures are "package deals." When a foreign culture introduces a single aspect of its culture into the life of another, there will be complications. Changing people's eating habits, apart from their understanding of medicine, costs of production, agricultural technology, risks of blight, marketing, and an indeterminate number of other contingent aspects of the recommended change, is risky when possible, and frequently impossible. The Third World peasants recognize the implications of this "cultural wedge" perhaps better than the Western "missionary": it may have a far-reaching impact on the culture as a whole—an impact which traditional peasants may choose to avoid. Unless the opportunity being offered by the innovator is seen by the recipient as being worth the risks of unforeseen "ripple effects," the attempt to force a change in the recipient's buying or eating habits may lead to a disaster. Or more likely, it will probably lead to a wall of resistance. Missionaries, whether Christian or secular, whether sponsored by a church or the Peace Corps, had better understand one fundamental principle before they go into the mission field: *You cannot change only one thing.*

The Sub-Sahara Sahel Famine

One of the classic horror stories that illustrates this principle is the Sub-Sahara Sahel famine of the 1970s. For 25 years, from the early 1950s through the mid-1970s, the West's civil governments poured hundreds of millions of dollars into this region. Yet between the late 1960s and 1974, several hundred thousand people starved, along with

20 million head of livestock. Why? As with most agricultural tragedies, there was no single cause. But one factor stands out. The area gets little rain: perhaps 25 inches in its southernmost regions, tapering off to an inch per year the closer you get to the Sahara. The nomads needed water for their herds, as they had from time immemorial. The West gave them water. It destroyed them.

Beneath the rock and clay and sand, there is water. A subterranean lake of half a million square miles underlies the eastern end of the Sahara. Mechanical rigs can hit water at 1,000 or 2,000 feet down. These boreholes were drilled with Western foreign aid money, at $20,000 to $200,000 apiece. About 10,000 head of cattle at a time can drink their fill. Therein lies the problem. Claire Sterling describes what happened:

> The trouble is that wherever the Sahel has suddenly produced more than enough for the cattle to drink, they have ended up with nothing to eat. Few sights were more appalling, at the height of the drought last summer [1973], than the thousands upon thousands of dead and dying cows clustered around Sahelian boreholes. Indescribably emaciated, the dying would stagger away from the water with bloated bellies to struggle to fight free of the churned mud at the water's edge until they keeled over. As far as the horizon and beyond, the earth was as bare and bleak as a bad dream. Drought alone didn't do that: they did.
>
> What 20 million or more cows, sheep, goats, donkeys, and camels have mostly died of since this grim drought set in is hunger, not thirst. Although many would have died anyway, the tragedy was compounded by a fierce struggle for too little food among Sahelian herds increased by then to vast numbers. Carried away by the promise of unlimited water, nomads forgot about the Sahel's all too limited forage. Timeless rules, apportioning just so many cattle to graze for just so many days within a cow's walking distance of just so much water in traditional wells, were brushed aside. Enormous herds, converging upon the new boreholes from hundreds of miles away, so ravaged the surrounding land by trampling and overgrazing that each borehole quickly became the center of its own little desert forty or fifty miles square.[10]

In Senegal, soon after boreholing became popular, around 1960, the number of cows, sheep and goats rose in two years from 4 million to 5 million. "In Mali, during the five years before 1960, the increase had been only 800,000. Over the next ten years the total shot up another 5 million to 16 million, more than three animals for every Malien man, woman, and child."[11] It is not just Americans and West Europeans who raise and eat "protein on the hoof."

The traditional nomad way of life is dead. Western specialists know it; the nomads know it. They live in tent camps now, dependent on handouts from their governments, which in turn rely heavily on the West's foreign aid programs. The West and the nomads forgot to honor (and deal with) the principle: *You cannot change only one thing.*

The Goal

The goal of charitable organizations that deal in foreign aid should be to bring the culture of the West to the underdeveloped nations. This means that these organizations cannot be run successfully by cultural and philosophical relativists. They should seek to impart a specifically Western way of looking at the world: future-oriented, thrift-oriented, education-oriented, and responsibility-oriented. This world-and-life view must not be cyclical. It must offer men hope in the power of human reason to understand the external world and to grasp the laws of cause and effect that control it. To try to bring seed corn to a present-oriented culture that will eat it is futile. With the seed corn must come a world-and-life view that will encourage men to grow corn for the future.

It does no good to give these cultures Western medicine and not Western attitudes toward personal hygiene and public health. It does no good to send them protein if their internal parasites will eat out their intestines. The naive idea that we can simply send them money and they will "take off into self-sustained economic growth" cannot be taken seriously any longer.[12] To attack the West because it is somewhat less willing today to continue to honor the tenets of a naive faith in foreign aid—a faith in the power of confiscation, in the power of using Western tax revenues to prop up socialist regimes in Third World nations—is itself immoral.

P. T. Bauer has made the study of economic development his life's work. He has emphasized what all economists should have known, but few acknowledged until quite recently, namely, that *attitudes* are more important for economic growth than money. His list of what ideas and attitudes *not* to subsidize with Western capital is comprehensive. No program of foreign aid, public or private, should be undertaken apart from an educational program to reduce men's faith in the following list of attitudes:

> Examples of significant attitudes, beliefs and modes of conduct unfavourable to material progress include lack of interest in material advance, combined with resignation in the face of poverty; lack of initiative, self-reliance and a sense of personal responsibility for the economic future of oneself and one's family; high leisure preference, together with a lassitude found in tropical climates; relatively high prestige of passive or contemplative life compared to active life; the prestige of mysticism and of renunciation of the world compared to acquisition and achievement; acceptance of the idea of a preordained, unchanging and unchangeable universe; emphasis on performance of duties and acceptance of ob-

ligations, rather than on achievement of results, or assertion or even a recognition of personal rights; lack of sustained curiosity, experimentation and interest in change; belief in the efficacy of supernatural and occult forces and of their influence over one's destiny; insistence on the unity of the organic universe, and on the need to live with nature rather than conquer it or harness it to man's needs, an attitude of which reluctance to take animal life is a corollary; belief in perpetual reincarnation, which reduces the significance of effort in the course of the present life; recognized status of beggary, together with a lack of stigma in the acceptance of charity; opposition to women's work outside the home.[13]

A long sentence, indeed. If the full-time promoters of Western guilt understood its implications, there would be greater hope for both the West and the Third World. What is remarkable is the extent to which *these guilt-manipulators have adopted so many of the very attitudes that Bauer says are responsible for the economic backwardness of the Third World.*

Guilt-Manipulation

Yes, the West continues to eat. The Third World finds it difficult to grow sufficient food. But Christians in the West are complacent. They are well-fed, while their "global neighbors"[14] go hungry. It appears that the Christians and rich Westerners in general were very smart: they all moved to those regions of the world where food is abundant. The plains Indians, before the white man came on the scene, experienced frequent famines. There were under half a million of them at the time.[15] Yet, somehow, the Westerners arrived just in time to see agricultural productivity flourish. They now consume more than their "fair share" of the food, and their only excuse is that they produce it. This, it seems, is not a good enough answer—certainly not a morally valid answer. The West needs to come up with a cure for the hungry masses of the world, but *not* the one that worked in the West, namely, *the private ownership of the means of production.*

Professor Sider (he teaches at a Baptist theological seminary) has a cure—if not for the world's hungry masses, then at least for the now-guilty consciences of his readers, not to mention the not-yet-guilt-burdened consciences of the American electorate. "We ought to move toward a personal lifestyle that could be sustained for a long period of time if it were shared by everyone in the world. In its controversial *Limits to Growth,* the Club of Rome suggested the figure of $1,800 per year per person. In spite of the many weaknesses of that study, the Club of Rome's estimate may be the best available."[16] And which agencies should be responsible for collecting the funds and sending them to the poor in foreign lands? United Nations channels.[17] Private charity is acceptable—indeed, it is better than the United States government, which sends food and supplies to "repressive dictatorships"[18]—but not preferable. We need State-enforced "institutional change," not reliance on charity, because "institutional change is often morally better. Personal charity and philanthropy still permit the rich donor to feel superior. And it makes the recipient feel inferior and dependent. Institutional changes, on the other hand, give the oppressed rights and power."[19] But if the United States government is not really a reliable State to impose such institutional change, what compulsory agency is reliable? He conveniently neglects to say. But the one agency he mentions favorably in this context is the United Nations.[20]

The Zero-Sum Economy

A zero-sum game is a game in which the winners' earnings come exclusively from the losers. But what applies to a game of chance does not apply to an economy based on voluntary exchange. Unfortunately, many critics of the free market society still cling to this ancient dogma. They assume that if one person profits from a transaction, the other person loses proportionately. Mises objects:

> . . . *the gain of one man is the damage of another; no man profits but by the loss of others*. This dogma was already advanced by some ancient authors. Among modern writers Montaigne was the first to restate it; we may fairly call it the *Montaigne dogma*. It was the quintessence of the doctrines of Mercantilism, old and new. It is at the bottom of all modern doctrines teaching that there prevailed, within the frame of the market economy, an irreconcilable conflict among the interests of various social classes within a nation and furthermore between the interests of any nation and those of all other nations. . . .
>
> What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's feeling of uneasiness. What hurts the sick is the plague, not the physician who treats the disease. The doctor's gain is not an outcome of the epidemics, but of the aid he gives to those affected. The ultimate source of profits is always the foresight of future conditions. Those who succeeded better than others in anticipating future events and in adjusting their activities to the future state of the market, reap profits because they are in a position to satisfy the most urgent needs of the public. The profits of those who have produced goods and services for which the buyers scramble are not the source of losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expended. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the consumers.[21]

The "Montaigne dogma" is still with us. The economic analysis presented by Ronald Sider assumes it. He can be regarded as a dogmatic theologian, but *his dogma is Montaigne's*. Consider for a moment his statistics, such as the Club of Rome's assertion that $1,800 a year would just about equalize the living standards of the world. The capital of the rich in the West—roads, educational institutions, communications networks, legal systems, banking facilities, monetary systems, manufacturing capital, managerial skills, and attitudes toward life, wealth, and the future—cannot be divided up physically. Furthermore, there is little evidence that it would be sufficient to produce world-wide per capita wealth of this magnitude, even if it could be physically divided up and redistributed.[22]

Redistribution Is Temporary

If we divided only the *shares of ownership* held by the rich—stocks, bonds, annuities, pension rights, cash-value life insurance policies, and so forth—we would see a market-imposed redistribution process begin to put the shares back into the hands of the most efficient producers. The *inequalities of ownership* would reappear, rapidly.

The Club of Rome assumes tremendous per capita wealth in the hands of the rich—so much wealth, that a program of compulsory wealth-redistribution could make the whole world middle class. The important issue, however, is the Montaigne dogma. It views the world as a zero-sum game, in which winnings exactly balance losses. Then how do societies advance? If life is a zero-sum game, how can we account for economic growth? A free market economy is not a zero-sum game. We exchange with each other because we expect to gain an advantage. Both parties expect to be better off after the exchange has taken place. Each party offers an opportunity to the other person. If each person did not expect to better himself, neither would make the exchange. *There is no fixed quantity of economic benefits. This is not a zero-sum game.*

We understand this far better in the field of education. For example, if I learn that two plus two equals four, I have not harmed anyone. In the area of knowledge, we all know that the only people who lose when someone gains new, accurate knowledge are those who have invested in terms of older, inaccurate knowledge. Could anyone seriously argue that the acquisition of knowledge is a zero-sum game (except, perhaps, in the case of a competitive examination)? Would anyone argue that we should suppress the spread of new, accurate knowledge in order to protect those who have made unfortunate investments in terms of old information?

Suppressing Knowledge

Sadly, the answer is "yes." There *are* people who advocate policies that do suppress new knowledge. They argue that it is immoral for one man to "take advantage" of specialized knowledge in order to reap a return on this knowledge. They want the civil government to impose restrictions on profits—"obscene profits," they are sometimes called—that one man or a firm can reap. *But this restricts the spread of the information that benefits consumers, and which they are willing to pay for.* The existence of profits alerts other profit-seeking entrepreneurs to the existence of specialized knowledge that had previously been ignored. Profits tell producers that an *opportunity* is available—an opportunity that they can *take advantage of* by entering the producer goods markets, buying up producer goods, restructuring them (if necessary), and selling them, in the form of "final" goods and services, to consumers. The lure of making profits is the *control mechanism* by which consumers get producers to serve them efficiently.

High profits, in a free market economy, are normally associated with *low prices* and *high wages.* The classic example is Henry Ford's Model T. He offered wages of $5 per day — unheard-of in 1913, when hourly wages were as low as 15 cents[23]—to lure men onto Ford's assembly lines that were producing cars that middle-class families could at last afford to buy. (When men said "afford" in 1914, they meant "a Ford.") He made his money the same way Sears, Roebuck had made its money, and which Ford may have used as a production model.[24] He used *mass-production techniques,* capturing a huge market by means of *price competition.* This had been capitalism's distinguishing trademark from the 1600s, but Ford's implementation of the high-wage version created a revolution. Drucker describes it:

> Before Ford changed the whole labor economy of the United States with one announcement, labor turnover at the Ford Motor Company had been so high that, in 1912, 60,000 men had to be hired to retain 10,000 workers. With the new wage, turnover almost disappeared. The resulting savings were so great that despite sharply rising costs for all materials in the next few years, Ford could produce and sell its Model T at a lower price and yet make a larger profit per car. It was the saving in labor cost produced by a drastically high wage that gave Ford market domination. At the same time Ford's action transformed American industrial society. It established the American working man as fundamentally middle class.[25]

What if the Federal government had passed a *windfall profits tax* on automobile production in 1912? Would Ford have taken the risk of this revolutionary experiment? And if he had taken it, and the Federal government had extracted its tax, would this revolutionary innovation have been imitated by Ford's competitors? Fortunately for the American worker, and unfortunately for Ford's competitors in the automobile business, the Sixteenth Amendment had gone into force only that year, 1913, and the top rate of extraction was only 6 per cent on all income above $500,000. There were no "windfall profits taxes" then.

The Ford Formula

Did Ford "take advantage" of all those people who had invested in auto firms that were bankrupted by Ford's successful experiment? Or did he simply make a better offer to workers and automobile buyers? How can anyone distinguish "taking advantage of" from "making a better offer to"? There is little doubt that Henry Ford's offer to workers represented *cut-throat wage competition* to all other buyers of labor services. There is also no doubt that his price-competitive Model T represented a devastating blow to the producers of hand-crafted, high-priced autos. Was Ford immoral in making his offer to consumers? And was he immoral in making a billion dollars—in pre-New Deal purchasing power—as a direct result of his grand experiment?[26] Should we condemn the "greedy consumers," who bought Ford cars in preference to those produced by his competitors?

The success of Ford's grand experiment drew imitators. How did they *know* that his experiment had been successful? *By the astronomically high profits that his company was making*. And how did they know in the late 1920s that the experiment was incomplete, and that his old offer—"You can get a Ford in any color you want, just so long as you want it in black"—was no longer competitive? By the losses Ford Motor Company sustained, and by the massive profits made by General Motors, which was in the process of creating a managerial revolution almost as significant as Ford's labor revolution.[27]

Another form of information-suppression is the popular government expedient of *price controls*. These can be price "floors," such as minimum wage laws, or price "ceilings," such as the rent controls or the ceiling on the price of natural gas. Price floors create "gluts": more supply of a particular item offered for sale than the market can absorb, *at the legal, artificial price.* Price ceilings produce shortages: more demand for a particular item than the market can provide, *at the legal, artificial price.* The artificial, State-enforced prices give off misleading signals that confuse both potential buyers and potential sellers—"potential" at the artificial prices.

Walter Wriston offers an important insight into one implication of price controls: their effect on the communication of vital knowledge.

> Prices and wages represent an essential form of economic speech; money is just another form of economic information. When the freedom of this economic speech is restricted, we are not only penalized, we are misled. . . . Prices enable consumers to communicate with producers and tell them what they want or don't want. If prices are censored, or frozen, they cannot tell producers what goods or services people want or don't want to purchase.[28]

The spread of consumer-satisfying information is enhanced by the lure of profits. The modern stock market is probably the most efficient and rapid communicator of new knowledge in the history of man.[29] When civil governments attempt to put restrictions on profits, they necessarily restrict the consumers' access to information, and the economic results of information, that they, by their demonstrated preferences, are willing to pay for in the marketplace. The "marketplace for ideas" is not limited to newspapers, television news rooms, and college classrooms, although some intellectuals employed by these organizations would have us believe so. *The marketplace for ideas, above all, is found in the competitive interplay of market offers and market responses.*

Competition as Substitution

When a person offers another person an opportunity to spend money, or trade goods, or whatever, the initiator is asking the second person to alter his existing pattern of expenditures. He is asking that person to take money that would have been spent or invested in one way, to spend or invest it differently. The initiator is asking the second person to *substitute* a new expenditure pattern for the previously dominant pattern.

Competition invariably possesses this element of substitution. The prospective worker asks an employer to hire him, even if this should mean that another person in the employment line is not hired. It may even mean that someone already employed by the firm gets fired, or demoted, or transferred. He may offer the prospective employer an intriguing offer: "Hire me for less than you are paying somebody already on the production line." Or: "Hire me, and I will work during hours that everyone else complains about." Or: "Hire me, and I will guarantee in writing that I will not join a labor union." Or (in a "union shop"): "Hire me, and I will guarantee in writing that I *will* join a labor union." In short, *hire me.* "Substitute me for someone on the production line or in the employment line; substitute me for the money that the firm intended to spend on labor-saving equipment, or advertising, or managerial bonuses. It will pay the company to substitute me for any of those other possible expenditures."

THE "vulgar calculus of the market place," as its critics have described it, is still the most humane way man has yet found for solving those questions of economic allocation and division which are ubiquitous in human society.

By what must seem fortunate coincidence, it is also the system most likely to produce the affluent society, to move mankind above an existence in which life is mean, nasty, brutish, and short. But, of course, this is *not* just coincidence. Under economic freedom, only man's destructive instincts are curbed by law. All of his creative instincts are released and freed to work those wonders of which free men are capable. In the controlled society only the creativity of the few at the top can be utilized and much of this creativity must be expended in maintaining control and in fending off rivals. In the free society, the creativity of every man can be expressed—and surely by now we know that we cannot predict who will prove to be the most creative.

BENJAMIN A. ROGGE, "The Case for Economic Freedom"

Does anyone ever complain about "cut-throat substitution"? As a slogan to call revolutionaries to the barricades, it lacks something. What about "cut-throat opportunities"? That one is even worse. It makes the process sound beneficial to consumers. Better stick with "cut-throat competition." That one gets legislators concerned about the terrible damage being done by "ruthless exploiters" (another top-flight incantation in the word-magic business) against innocent suppliers. It is not easy to get legislation "in the public interest" against cut-throat opportunities.

So when we hear the phrase, "cut-throat competition," we should think twice. Whose throat is being cut? The consumer's? Not very often. The supposed cut-throat—in pirate's garb, a knife in his teeth—is usually just someone who offers the consumers a better opportunity. No doubt, he is resented by his competitors, who are unwilling or unable to offer the consumers a comparable deal. But this should not send us rushing to the barricades, or into the halls of Congress, to demand action against these anti-social "cut-throats." Legislation against cut-throat suppliers reduces their freedom of action, and it ultimately reduces our freedom, as consumers, to respond to offers that we might have accepted. Legislation against cut-throat competition results in the *cut throats of consumers:* reduced opportunities.

Therefore, when we hear the phrase, "cut-throat competition," let us mentally substitute the word "opportunities" for "competition." It reminds us of what we are being asked to destroy through legislation: "New Opportunities: Void where prohibited by law!"

—FOOTNOTES—

[1]Martin Anderson, *The Federal Bulldozer* (New York: McGraw Hill, 1967), ch. 4. This study was published originally by MIT Press in 1964.

[2]Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (3rd ed.; New York: Harper Torchbook, [1950] 1962), ch. 7: "The Process of Creative Destruction."

[3]Israel Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973), pp. 72–73.

[4]Ronald Sider, *Rich Christians in an Age of Hunger* (Downers Grove, Illinois: Inter-Varsity Press, 1977), p. 18. This book was co-published by the liberal Roman Catholic publishing house, the Paulist Press. Unquestionably, it represents an ecumenical venture. Inter-Varsity is perhaps the largest campus organization of the "neo-evangelical" branch of Protestantism.

[5]*Ibid.*, p. 152.

[6]*Ibid.*, p. 153.

[7]*Ibid.*, p. 43.

[8]Richard H. Wagner, *Environment and Man* (3rd ed.; New York: Norton, 1978), p. 523.

[9]*Ibid.*, pp. 518–19.

[10]Claire Sterling, "The Making of the Sub-Sahara Wasteland," *Atlantic* (May, 1974), p. 102. I assume she means 50 square miles, not 50 miles square (2,500 square miles).

[11]*Ibid.*, p. 103.

[12]W. W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto* (Cambridge: At the University Press, 1960). This was a best-seller of the early 1960s. For a critique, see the essays by several economic historians in Rostow (ed.), *The Economics of Take-Off into Sustained Growth* (New York: St. Martin's, 1963).

[13]P. T. Bauer, *Dissent on Development* (Cambridge, Mass.: Harvard University Press, 1972), pp. 78–79.

[14]Sider, *Rich Christians*, p. 30.

[15]R. J. Rushdoony, *The Myth of Over-Population* (Fairfax, Virginia: Thoburn Press, [1969] 1978), pp. 1–3.

[16]Sider, "Living More Simply for Evangelism and Justice," the Keynote Address to the International Consultation on Simple Lifestyle, England (March 17–20, 1980), mimeographed paper, p. 17.

[17]Sider, *Rich Christians*, p. 216.

[18]*Idem.*

[19]Sider, "Ambulance Drivers or Tunnel Builders" (Philadelphia: Evangelicals for Social Action, no date), p. 4.

[20]For a critical analysis of Sider's views, see David Chilton, *Productive Christians in an Age of Guilt-Manipulators: A Biblical Response to Ronald Sider* (rev. ed.; Tyler, Texas: Institute for Christian Economics, 1982).

[21]Ludwig von Mises, *Human Action* (3rd ed.; Chicago: Regnery, 1966), pp. 664–65.

[22]Gary North, "Trickle-Down Economics," *The Freeman* (May, 1982).

[23]Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974), p. 338.

[24]*Ibid.*, p. 53n.

[25]*Ibid.*, p. 339.

[26]Dean Russell, "The Last Billionaire," *The Freeman* (December, 1959), p. 32.

[27]Drucker, *Management*, pp. 209–10, 380–84.

[28]Walter B. Wriston, "Repressing Economic News," *The Freeman* (July, 1979), p. 394.

[29]Frederick C. Klein and John A. Prestbo, *News and the Market* (Chicago: Regnery, 1974). On the ill-effects on the spread of information as a result of the government's attempt to restrict "insider trading," see Henry Manne, *Insider Trading and the Stock Market* (New York: The Free Press, 1966).

Jean L. Natale

My Cup of Tea

I HAVE A FANTASY in which all educational institutions are free of government financing, and control. They have been turned over to educators, and to entrepreneurs. All the fighting stops. People stop making speeches, and marching with placards. They stop throwing rocks, and shouting obscenities.

With the entry of schools into a free marketplace, the decision about what kind of education my child is to receive is now mine. I have to make compromises; I don't expect to have everything I want in one school. But, I'll come close.

I think I will select a school that bans formal prayers. I pray, and encourage my children to, but prayers in school are not quite right for us.

Mrs. Natale is an editor and writer in Lombard, Illinois.

I like a school that emphasizes phonics, and luckily for me, most of them do.

A swimming pool and gymnasium are important to some people, but those features bring the price up, and since I'm not too interested, I think I'll look for a school that doesn't have them.

I think I would not mind a school that has an occasional Communist, or other controversial speaker, but my neighbor's child attends a school that shuns them.

I know a lot of people who use discount schools, and they get a lot for their money. Also, the "free" lunches they offer are an inducement. However, I think I would rather spend a little more, and have smaller classrooms.

There is a chain of schools that

emphasizes science. That is something I might look into.

There is a little red, one-room schoolhouse near me which is tempting, but that is something I haven't made up my mind about. The nice thing about this school is that for recreation and exercise, the children are just turned out into a big empty yard to play. You'd be surprised at the ingenuity those kids develop. Did you ever hear of "Run Sheep Run"? On the other hand, this school uses *McGuffey's Reader*. Some of us are not sold on that.

I like co-ed schools, but one of my friends sends her daughter to an all-girl school halfway across town. I don't like busing. It's expensive, and time-consuming.

I know a teacher who has a few students in her home. This is a bright, happy bunch, and the kids are getting a quality education.

About half the schools I am acquainted with have sex education programs. Those who are adamantly opposed send their children to the schools that don't.

My task is certainly complicated. I must choose a school from among those that have smoking lounges; those that teach boys to crochet and girls to fix leaky faucets; those that have dress codes; those in which classes are conducted in Spanish, French, or some other language; those that have a portrait of George Washington hanging in the lobby, or Martin Luther King, or Jesus Christ, or Susan B. Anthony; those that guarantee to teach your child to read or you get your money back; those that . . . well, you get the idea. It's a complicated job, but I wouldn't have it any other way. It's a dream that could, and should come true.

Education for 1984

IDEAS ON LIBERTY

IN that terrifying novel by George Orwell, *1984*, the Party of Big Brother developed the ultimate in ruthless dictatorship precisely because it devised the means of enslaving men's minds. It began by undermining the discipline of history, setting all men adrift in a world where past experience became meaningless. It continued by undermining the discipline of language, debasing speech until it could no longer be the vehicle of independent thought. And the crowning triumph of its torture chambers was the undermining of the disciplines of logic and mathematics, by which it finally brought its victims not only to assert but actually to believe that two plus two equals five.

ARTHUR E. BESTOR, JR.

Clarence B. Carson

THE RELICS OF INTERVENTION:

3. The New Deal Bent to Inflation

GOVERNMENT INTERVENTION came into its own with the New Deal. Not that the New Dealers invented the notion or developed for the first time the practice of government intervention in the economy. Both the idea and practice have been around for a very long time. Even collectivist ideas of intervention so as to control the economy for social ends had come into increasing prominence over a period of a half century before the New Deal. But the New Deal fostered intervention in such variety and on so large a scale, and much of it so swiftly, that it seemed new and different. In a sense it was. Theretofore, except during World War I, intervention had been piecemeal, scattered, and occasional. With the New Deal, it became central, and much that was done became a permanent part of our economic landscape.

The most prominent of the New Deal programs were supposed to deal with economic problems arising from the Great Depression. Most of them were put forward as remedies for depression-related conditions, many of them in an emergency atmosphere. In consequence, the notion took hold that the programs were shaped pragmatically and eclectically for the occasion. Actually, the depression mainly provided the occasion in which the programs could be enacted. Most of them were not conceived originally as depression remedies, and they certainly did not

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remedy the depression. The New Deal was not born of the depression; it was made possible by the depression.

The three main sources of the New Deal were: Theodore Roosevelt's New Nationalism, the war mobilization activities during World War I, and the socialist idea of a planned economy which was in the ascendant in the 1920s.

New Deal in the Guise of Liberalism

The influence of Progressivism on the New Deal came mostly from the earlier Roosevelt's New Nationalism. New Deal Democrats did not, of course, call themselves Progressives. Although there had been Democrats who identified themselves as progressives, usually with a lower case "p," the Progressive movement was primarily a dissident move among those who had been, or still were, Republicans. In any case, New Deal Democrats had co-opted the term "liberal" to describe their ideological bent. "Liberalism" came into currency in the nineteenth century as a term to describe those who favored individual liberty, free trade, national independence, expansion of the suffrage, and so on. New Dealers appropriated the term, along with much else, to describe a pro-government interventionist position that had only a residue here and there of traditional liberalism.

This did not deter the New Dealers, however, from borrowing liberally from the earlier Roosevelt's nationalism. So far as Franklin D. Roosevelt himself was concerned, family ties may have accounted for some of the influence. One historian says that as a young man he "looked up to Uncle Ted, and the relationship brought Franklin Roosevelt a continuous suggestion that politics was a permissible career for a patrician, that a patrician's politics should be reform, and that reform meant broad federal powers wielded by executive leadership in the pattern of the New Nationalism."[1] However that may be, there are many indications of the New Nationalism in the New Deal.

Richard Hofstadter noted that "There are many occasions in its history when the New Deal, especially in its demand for organization, administration, and management from a central focus, seems to stand squarely in the tradition of the New Nationalism. . . ."[2] There was the nationalistic fervor emanating from the pronouncements during the first couple of years. The word itself cropped up in such legislation as the National Recovery Act and the National Labor Relations Act. There were the numerous commissions and boards established, such as the Federal Power Commission, the Securities and Exchange Commission, and the National Labor Relations Board.

Theodore Roosevelt had been an enthusiast of the commission idea.

Above all, the New Deal had philosophical links to the New Nationalism. Theodore Roosevelt had proclaimed the necessity for regulating and controlling industry and labor so that their actions would be brought in line with the national interest. The New Deal was animated by what was basically the same idea. When New Deal insiders, such as Rexford G. Tugwell, talked of repudiating progressivism what they had in mind was Wilson's New Freedom, with its opposition to trusts and corporations. For example, Tugwell expressed the fear in 1932 that if "the Brandeis progressives," i.e., the followers of Wilson, should gain the ascendant the Democratic platform would be filled with "platitudinous and general remarks about free enterprise."[3] Of course, "the Brandeis progressives" did have considerable influence on the New Deal, especially by way of Felix Frankfurter,[4] but it was rarely in support of free enterprise, and it could hardly rank with that of the New Nationalism.

The Wilson Influence

From a different angle, though, the Wilsonian influence may have been greater than that of the New Nationalism. That is, if the mobilization of the economy during World War I be attributed to Woodrow Wilson, his influence was large indeed on the New Deal. Twentieth century liberals have been especially enamored of the war motif or war metaphor for their various interventionist and distributionist undertakings. The most famous case was that of President Johnson's "War on Poverty," but even when they have not stated the matter so bluntly, it seems to have been lurking around as a kind of archetype for political activity. What impressed them, no doubt, was the collective character of war, the use of government power to coordinate and mobilize the economy, and the apparent productive successes of the efforts. Government mobilization during World War I was the primary source of this idea for the New Deal generation.

The Wilson Administration did not rush headlong into an all out mobilization once war had been declared. However, before the war was over much of economic activity had been brought under the control and direction of the government. The broadest of the organizations which undertook this was the War Industries Board under the direction of Bernard Baruch. Its authority was exceedingly large over manufacturing. As one history points out:

> The elastic powers conferred on Baruch as chairman of the War Industries Board made him a dictator over large areas of the war economy. His authority to establish priorities on all materials except agricultural commodities gave him

life-and-death power over business. If a manufacturer refused to convert from the production of horseshoes to trench shovels, Baruch could cut off his supplies of iron and shut down his assembly lines. He could even commandeer the plant for the government and operate it. In cooperation with the price-fixing committee, he could exercise further leverage by setting the prices of raw materials at wholesale.[5]

In addition, there was a War Labor Board to settle industrial disputes, a Food Commissioner, Herbert Hoover, with extensive control over food, feed, fertilizer, and fuel, a United States Shipping Board, a Railroads War Board, a War Trade Board, and so on. Moreover, the government took over and ran the railroads for a time.

Franklin D. Roosevelt was in the midst of this massive effort at controlling the economy, for he was Assistant Secretary of the Navy during the war. General Hugh Johnson, first head of the National Recovery Administration (N.R.A.) in the New Deal was even more closely involved in the effort: he served as Army liaison officer to the War Industries Board. The experience was certainly not wasted on him. "The War Industries Board had given him the conviction that it was possible for government to direct the national economy."[6] His reaction immediately after the war was, "If cooperation can do so much, maybe there is something wrong with the old competitive system." He was in favor, then, of "self-government in industry under government supervision."[7]

Indeed, people who had experience in the war mobilization were much in demand in the early days of the New Deal. As one account has it, "Only the veterans of the war mobilization had much experience with the kind of massive undertaking Roosevelt had inaugurated. 'One cannot go into the Cosmos Club without meeting half a dozen persons whom he knew during the war,' wrote one New Dealer."[8]

The War Image

In his First Inaugural Address, Roosevelt evoked the war image repeatedly in his appeal to the American people. He declared that "we must move as a trained and loyal army willing to sacrifice for the good of a common discipline, because without such discipline no progress is made, no leadership can become effective." He threatened that if Congress did not act on the measures he would recommend, "I shall ask the Congress for the one remaining instrument to meet the crisis—broad Executive power to wage a war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe."[9]

No commander ever exhorted his troops with greater fervor than did

> "We must move as a trained and loyal army willing to sacrifice for the good of a common discipline . . ."
>
> —**Franklin D. Roosevelt, March, 1933**

General Hugh Johnson the people to adopt his banner, the blue eagle emblazoned on the N.R.A. sticker, which bore the legend, "We Do Our Part." In an appeal to women he proclaimed that "this time, it is the women who must carry the whole fight of President Roosevelt's war against depression, perhaps the most dangerous war of all. It is women . . . who will . . . go over the top to as great a victory as the Argonne."[10] While much more evidence could be cited as proof that New Dealers found in war, and especially in World War I, a major set of images and ideas for their programs, perhaps the case has been sufficiently made.

Since the idea of a planned economy as a source of the New Deal will be discussed in detail elsewhere, it can be dealt with summarily here. It may suffice to point out that many American intellectuals in the 1920s were greatly attracted by the idea. The planned economy was what most caught their eyes in what was going on in both the Soviet Union and Fascist Italy. It was that aspect of World War I mobilization, too, that was most appealing to them. As an historian of the New Deal has said, "The New Dealers shared John Dewey's conviction that organized social intelligence could shape society," and economic planning was at the forefront of their thinking at the time they came to power.[11]

What did the New Nationalism, World War I mobilization, and a planned economy have to do with remedying the depression? Nothing much, so far as I can see. Indeed, if I may turn the point around and state a conclusion in advance of the evidence for it, these ideas when implemented had much to do with prolonging the depression. But at this place in the discussion, what I want to emphasize is that much of the vast governmental control and regulatory mechanism brought into being by the New Deal is a relic, not of depression remedies, but of enthusiasms for kinds of government activity born and bred in the decades before the depression.

That is not to say that a great deal of mental energy, argument, and oratory was not put into trying to make these notions and programs appear relevant to the depression. It certainly was. Moreover, as a result of the effort most of the programs did have a thrust in the direction that it was claimed would bring the country out of the depression. To be specific, the thrust of the New Deal was to raise prices, and that was what the seers believed needed to be done. Thus, whether the New Deal was authorizing commissions, in the mode of the New Nationalism, setting up agencies patterned after those used during World War I, or attempting to plan the direction of the development of the economy, they were all pointed toward raising prices and increasing what was called "purchasing power."

The Hoover Years

Roosevelt was not the first President who sought to end the depression by maintaining or raising prices. Herbert Hoover, who preceded him, had followed a similar course, though less dramatically. Hoover met with business leaders when the depression got underway and urged them not to lower wages. He approved the Smoot-Hawley Tariff, which had as its object the raising of American prices by keeping foreign products out. He undertook an extensive public works program, which was supposed to provide jobs so that workers would be less likely to lower wages by competing for jobs. The Agricultural Marketing Act, passed during Hoover's Administration, provided for making loans so that farmers could withhold crops from the market to keep prices up.[12]

Roosevelt was undeterred by the failure of the Hoover programs to achieve their object. So far as they considered them in that light at all, the New Dealers thought the Hoover effort was too timid and much too piecemeal. In any case, they were much more convinced of the healing powers of monetary inflation than Hoover had been. Before indicating the course that they pursued, however, some generalizations about what Roosevelt accomplished and some analysis of the causes of the Great Depression are in order.

It has often been alleged that Roosevelt saved American capitalism from its worst debacle.[13] If he did, I suspect it was accidental, but the generalization is too broad, too subject to semantic debates about the meaning of "capitalism," to be of much use one way or the other. It is reasonably clear, however, that the New Deal rescued numerous banks, saved fractional reserve banking, preserved the Federal Reserve system and credit expansion based in considerable part on monetizing debt, and fixed an inflationary bias on the American government and economy from which they still suffer.

Prolonged Credit Expansion

The basic cause of the Great Depression was a prolonged credit expansion accomplished by monetizing debt. The immediate cause was a credit contraction. This set off the stock market crash which was accompanied and followed by a liquidity crisis that sent a prolonged series of shocks through the world of

> "We are seriously concerned with the problem of creating buying power, which in turn, will have the effect of opening factories and stimulating business generally."
>
> **—Harold Ickes, March, 1933**

finance, reaching eventually to almost every credit organization in the United States. One way of describing what had happened was that a severe deflation, or series of deflations, had occurred. Another way of looking at it is to say the credit, investment, and spending declined precipitately. From late 1929 through early 1933 a vast adjustment in prices was taking place to compensate for the deflation. However, government action in general and the Federal Reserve in particular tried to prevent the economic adjustment from taking place. Indeed, this effort continued throughout the 1930s, prolonging the depression.

The New Dealers held generally that the problem was a shortage of purchasing power, or, at the least, a shortage in the hands of those who would spend it. In a speech at Oglethorpe University in 1932, Roosevelt said that there was "an insufficient distribution of buying power. . . ."[14] After attending a cabinet meeting on March 31, 1933, Harold Ickes, Secretary of the Interior, recorded this conclusion: "We are seriously concerned with the problem of creating buying power, which in turn, will have the effect of opening factories and stimulating businesses generally."[15] In the most obvious sense, there was clearly some sort of shortage of purchasing power by those who had great difficulty in providing for their most direct wants. That is, there was food, clothing, shoes, and other goods available in stores. Huge crops were produced on farms, much of which could hardly be sold. Factories that had the capacity to produce a great variety of goods stood idle, or were operated only occasionally. Yet, many people had to resort to charitable aid to get the wherewithal to live. Surely, they lacked the purchasing power to buy the goods.

Indeed, it may well be that an endemic shortage of purchasing power had plagued the American economy throughout the 1920s. I think so. Moreover, the shortage of purchasing power is closely connected to what I have asserted was the root cause of the depression, i.e., a prolonged credit expansion accomplished by monetizing debt. But before explaining that, let me make clear that I do not mean by shortage of purchasing power a shortage of money. That is an illusion, an illusion to which New Dealers were given and to which the Keynesians succumbed.

Money Defined

Money, *per se,* is *not* purchasing power. Money is a medium of exchange. It is, then, a *medium* through which purchasing power is exercised. To confuse money with purchasing power is akin to confusing postmen with those who have written the letters delivered to one's mailbox. A person who believes that way might have what he considered to be a letter shortage. In which case, he might reckon that the way to get more mail would be to have more deliveries or more postmen. If this were done, however, it would not increase the amount of the mail. The postman is, in this sense, a medium through which mail is sent, as money is a medium for purchasing power.

What is purchasing power, then? It is goods (or services, if the distinction be made). Ultimately, all exchanges are of goods for goods, as J. B. Say pointed out a good while ago. In a money economy, of course, goods are ordinarily intermediately exchanged for money, and money is then exchanged for other goods. The fact that money can be exchanged for goods gives rise to the illusion that money is purchasing power. But it is not; it is only an instrument through which the purchasing power is conveyed. A shortage of purchasing power, then, is a shortage of goods, either to consume or to exchange for other goods.

Actually, the phenomenon which I wish to describe has no commonly accepted name. Rather, it has a name in international trade, but not in domestic trade. In international trade, it is a trade imbalance. For example, a country which imports more goods than it exports is said to have an unfavorable balance of trade. In general, such a condition could only exist over any extended period of time because of two things. Either the difference would have to be made up in some acceptable currency, gold, for example, or credit would have to be extended from the exporting countries to cover the difference. The imbalance can be described as a shortage of purchasing power in the country with an unfavorable balance of trade. And, in international trade, the reason for the imbalance is ultimately discernible as a shortage of saleable goods.

Monetary Intervention

In the domestic market, however, an imbalance of trade is neither easily recognizable as such nor measurable in such terms. Certainly, it is not recognizable as a shortage of goods with which to trade, nor, in the sense in which I would use the phrase, a shortage of purchasing power. It is not a normal market phenomenon at all. It occurs only as a result of a large scale intervention in the market. Specifically, it occurs as a result of a credit expansion fueled by a massive monetizing of debt. The imbalance comes about in this way. Transactions take place in which goods are advanced, on the one hand, but for which no goods either have been produced or exist, on the other. The transaction is made to appear complete by the promise of the buyer to pay in the *future*. In economic terms, the transaction will only be actually completed—a balance restored—when compensating goods are produced in the future.

> "It was a vital necessity to restore purchasing power. . . ."
> **—Franklin D. Roosevelt, July, 1933**

This sounds for all the world like any transaction based on credit. So far as the individuals or organizations involved in the transaction may be aware of it there is no difference. There is a great difference, however, between monetized debt credit and credit based on saving. Savings are accumulations from *past* production; someone defers his own spending in order to enable another to spend, for a price, of course. Monetized debt credit, by contrast, is based on nothing other than a promise. It is wholly *futuristic*.

Monetized debt credit expansion introduces a whole set of *temporary* imbalances in the economy. There is a trade imbalance because the goods to be traded for other goods have not yet been produced. There is a price imbalance because prices are no longer in proportion to the money supply. There is a shortfall of real purchasing power, although the easy credit may give rise to the illusion that there is an excess of purchasing power. In the wake of the credit expansion there will be an imbalance of production, for many producers will be induced to increase their production, and even their facilities for production, for there are many willing buyers with the money, it seems, to pay for their wares.

Painful Adjustments

The imbalances resulting from any single monetary expansion, however large, will be only temporary. The market tends always toward balance, and if people are free to operate the market, balance will be restored. Prices will rise to compensate for the increase in the money supply. People will generally pay their debts out of production, if they can, and the trade imbalance will be restored. However, at this stage the shortage of purchasing which was there at the outset will become obvious. Much of production must go into retiring debts. Moreover, even when the debts are retired, there may need to be a further interval for savings to be made before many new purchases can be made. Many plants may lie idle, and there will be a depression. The adjustments that must be made to restore the balance are often difficult and unpleasant.

Let me emphasize that the villain of this piece is the credit expansion. The late Ludwig von Mises stated the case forthrightly and succinctly in these words:

> The wavelike movement affecting the economic system, the recurrence of periods of boom which are followed by periods of depression, is the unavoidable outcome . . . of credit expansion. There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.[16]

Although a currency catastrophe is undoubtedly the ultimate outcome of a persistently prolonged credit expansion, that was not what appeared to loom ahead in the early 1930s. What immediately threatened was the collapse of the institutions that had been the instruments of the credit expansion, namely, the banks. There had been a whole series of credit expansions in the 1920s. A means for monetizing the debt had been established before World War I with the Federal Reserve system. One economist has estimated that the money supply in the United States was increased from $45.3 billion in 1921 to $73.26 billion in June of 1929.[17] Buying on credit became a way of life for many people in the 1920s. "By the latter part of the decade . . . there were some six billions of 'easy payment' paper outstanding."[18] Optimism rose to new heights in the last years of the decade. People were betting on the future as never before, as billions of the easy money were poured into the stock market.

> "We had a bad banking situation. . . . It was the Government's job to straighten out the situation and do it as quickly as possible. And the job is being performed. . . . We have provided the machinery to restore our financial system."
>
> **—Franklin D. Roosevelt**
> **March, 1933**

The Federal Reserve banks began to try to cool the fervor in 1928, when they began to raise the rediscount rates. They tried to zero in on the stock market bull. On February 2, 1929, the Board declared: "The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal Reserve Banks for the creation or extension of speculative credit."[19] Apparently, this and other credit tightening policies finally bore fruit. At any rate, the stock market crashed in October, and a drastic deflation ensued. Men were thrusting for liquidity, for the means to meet their debts and obligation. The pressure on banks was great and tended not to decrease with the passage of time. In 1929, 659 banks failed; in 1930, 1,352; in 1931, 2,294, and in 1932, 1,456.[20]

> President Roosevelt proclaimed a national banking holiday and called a special session of Congress . . . to deal with the banking emergency.

Banking Holiday

When a bank failed, most of the deposits tended to vanish into thin air, as it were, thus reducing the money supply further. But the most frightening aspect of this was yet to come. As Roosevelt's inauguration approached, the banking crisis worsened. On February 14, 1933, the governor of Michigan declared an extended banking holiday. On February 24, the governor of Maryland declared a three-day banking holiday. "On March 1, the governors of Kentucky and Tennessee proclaimed bank holidays; that night the governors of California, Louisiana, Alabama, and Oklahoma pursued the same course. By March 4, the day of Roosevelt's inauguration, thirty-eight states had closed their banks, and banks operated on a restricted basis in the rest. Shortly before dawn, Governor Herbert Lehman of New York and Governor Henry Horner of Illinois suspended the banks in the two great states that dominated the financial life of the nation."[21] Most stock exchanges and futures markets were also closed. American finance might not be out, but it was certainly down.

President Roosevelt proclaimed a national banking holiday and called a special session of Congress, intending primarily to deal with the banking emergency. (The regular, "lame duck," session had already met for the year and adjourned.) Whether Roosevelt would be an inflationist or not was somewhat confused from the outset. It may be that the confusion arose from his failure to connect government fiscal policy with monetary expansion. Or, he may have deliberately chosen to treat them as if they were quite separate. As a candidate, he had promised economy in government, the cutting of expenses, and a balanced budget. His Budget Director was certainly of that persuasion, and from time to time economy moves were got underway.

What is not in doubt is that overall the monetarists around him won out generally. From the moment he came to office, too, he began to clear the ground for increasing the money supply and to take the steps for credit expansion. There is no doubt, either, that, above all, he wanted to raise prices and that he accepted a course of action which identified money with purchasing power. As soon as Congress assembled on March 9, 1933 in special session, the House of Representatives was presented with an emergency banking bill by the Administration. The bill gave the color of law to actions already taken by the President, such as the bank closing and the halting of gold transactions. More, it gave him extensive authority over gold, provided penalties for hoarding, authorized the issuance of new Federal Reserve notes, and provided for the reopening of those banks adjudged to be sufficiently liquid to do so.

On the same day that the bill was introduced, "With a unanimous shout, the House passed the bill, sight unseen, after only thirty-eight minutes of debate."[22] By early evening, the Senate had passed the bill by a vote of 73–7, and the President had set his seal upon it well before bedtime. Not even declarations of war have usually been acted on so swiftly, or in such an atmosphere of dire emergency.

Calling All Gold

Roosevelt moved swiftly in the ensuing days and weeks to remove virtually all restraints on credit and monetary expansion. In April, he issued an executive order that all gold was to be turned in to Federal Reserve banks by May 1. On April 20, he ordered an end to the export of gold (usually referred to as going off the gold standard). On June 5, by Joint Resolution Congress repudiated all private or government clauses in contracts requiring payment of gold. Congress declared that such clauses were "inconsistent with declared policy of the Congress to maintain at all times the equal power of every dollar . . . in the markets and in the payment of debts."[23]

Meanwhile, the government began its move to bail out, shore up, control, expand, and eventually create new credit expanding institutions. A Federal Securities Act was passed May 27, 1933, requiring full disclosure on securities offered to the public and the registration of most of them. The Securities and Exchange Commission was set up the next year to enforce these and related regulations. During the special session in 1933, the Federal Deposit Insurance Corporation was set up to insure bank deposits. The act was intended to reassure depositors, and it did much to rescue fractional reserve banking.

The Reconstruction Finance Corporation, which had got under way during the Hoover Administration, was used much more vigorously under Roosevelt. Jesse Jones, a Texas banker, used it to fuel credit expansion through existing banks. "Instead of lending money to banks, and thereby increasing their debt, as had been done in the Hoover regime, Jones sought to enlarge their capital. By buying bank preferred stock, he bolstered the capital structure of banks, created a base for credit expansion, and made it possible for the deposit insurance system to function."[24]

Inflationary Measures

The government moved quickly, too, to stop the widespread mortgage foreclosures and to rescue the banks and credit institutions from the burden of carrying them. A Home Owners Loan Corporation was created to refinance home mortgages and make other types of homeowner loans. By the time it went out of business it had made loans on over a million mortgages. A Farm Credit Administration enabled farmers to refinance farm mortgages. The Commodity Credit Corporation was a new agency to make loans on crops. Other new credit expanding institutions eventually set up were the Federal Housing Administration in 1934 and the Farm Security Administration in 1937. The main thrust of these various organizations was either to expand credit or to make it possible for banks to do so.

In 1935, the Federal Reserve system was revamped. The authority of the Federal Reserve Board over Federal Reserve Banks was increased, giving it greater control over rediscount rates, and expanded the kinds of instruments that could be rediscounted. The last remaining bar to flooding the country with Federal Reserve notes had already been so lowered that it was hardly a factor in the 1930s. The gold reserve requirement for backing the notes had been made into more of an invitation to money creation than an immediate restraint on it.

In 1934, the price of gold was pegged at $35 per ounce. This was far above its price when there was a market in the United States as well as above the world market price. Thus, existing supplies could serve as reserves against much greater note issues, and supplies of gold were greatly increased as much of the gold in the world flowed into the United States. Since the gold reserve requirement was only a fraction of the dollar amount of notes to be issued, the Federal Reserve Board could now inflate, if not at will, at least bountifully.

What I have been describing, of course, are the measures taken by the New Dealers to accomplish reinflation, or "reflation," as some economists called it at the time. Under the illusion that the cure for the depression lay in raising prices and that money is purchasing power, the New Deal inflated away. This did not succeed in ending the depression in the 1930s. That could only be done by producing what people wanted, not what they might be induced to buy by credit expansion.

What the New Deal did succeed in doing was establish a bent for inflation which has us still in its stranglehold and provide an institutional framework for continuing the inflation indefinitely. Ever since, any slowing up of credit expansion or slight contraction has resulted in recession or depression. The reason for this is that the trade imbalance, or real shortage of purchasing power, which is temporarily obscured by credit expansion, rises to the surface unless there are incremental increases in the money supply. Meanwhile, our money is progressively destroyed, and the credit on which we would live becomes ever more expensive.

Next: *New Deal Collective Planning.*

—FOOTNOTES—

[1]Eric F. Goldman, *Rendezvous with Destiny* (New York: Vintage Books, 1956), p. 252.

[2]Richard Hofstadter, *The Age of Reform* (New York: Alfred A. Knopf, 1955), pp. 300–01.

[3]Rexford G. Tugwell, *The Brains Trust* (New York: Viking, 1968), p. 175.

[4]See Arthur M. Schlesinger, Jr., *The Crisis of the Old Order* (Boston: Houghton Mifflin, 1957), p. 419.

[5]George B. Mayer and Walter O. Forster, *The United States and the Twentieth Century* (Boston: Houghton Mifflin, 1958), p. 248.

[6]Schlesinger, *op. cit.*, p. 415.

[7]Quoted in Arthur M. Schlesinger, Jr., *The Coming of the New Deal* (Boston: Houghton Mifflin, 1959), pp. 87–88.

[8]William E. Leuchtenburg, *Franklin D. Roosevelt and the New Deal* (New York: Harper & Row, 1963), p. 63.

[9]Ben D. Zevin, ed., *Nothing to Fear: The Selected Addresses of Franklin D. Roosevelt* (New York: Popular Library, 1946), p. 30.

[10]William E. Leuchtenburg, ed., *The New Deal* (Columbia: University of South Carolina Press, 1968), p. 44.

[11]Leuchtenburg, *Franklin D. Roosevelt and the New Deal,* p. 33.

[12]For a more complete discussion, see Clarence B. Carson, *The Fateful Turn* (Irvington, N.Y.: The Foundation for Economic Education, 1963), ch. 9.

[13]New Dealers started this rumor, no doubt. See, for example, Frances Perkins, "The New Deal as Savior of Capitalism" in Leuchtenburg, *The New Deal,* ch. 8; for his version of much the same information, see *The Secret Diary of Harold L. Ickes: The First Thousand Days* (New York: Simon and Schuster, 1953), pp. 30–31.

[14]Tugwell, *op. cit.,* p. 172.

[15]Ickes, *op. cit.*, p. 14.

[16]Ludwig von Mises, *Human Action* (Chicago: Henry Regnery, 1966, 3rd rev. ed.), p. 572.

[17]Murray Rothbard, *America's Great Depression* (Princeton, N.J.: D. Van Nostrand, 1963), p. 88.

[18]Frederick L. Allen, *Only Yesterday* (New York: Bantam Books, 1959), p. 119.

[19]Quoted in *ibid.,* p. 217.

[20]Arthur S. Link, *American Epoch* (New York: Alfred A. Knopf, 1955), p. 359.

[21]Leuchtenburg, *Franklin D. Roosevelt and the New Deal,* p. 39.

[22]*Ibid.,* pp. 43–44.

[23]Henry S. Commager, ed., *Documents of American History* (New York: Appleton-Century-Crofts, 1963), vol. II, p. 263.

[24]Leuchtenburg, *Franklin D. Roosevelt and the New Deal,* p. 71.

Supply Side Economics

WHEN John Maynard Keynes proposed "government investment" as the cure for a sluggish economy, he thought of it as a flywheel. It would have a "multiplier effect" as boondoggle or bail-out money moved into consumption that might turn up as investment the second time around. But the Keynesians failed to reckon with the fact that "divisor effects" might be more powerful in the long run than anything coming from the multiplier. Keeping a marginal farm going might sell a few hoes, maybe even a second-hand tractor. But it also might divert perfectly good investment money into sterile subsidies that would deprive some inventive soul somewhere of the capital needed to start a new business.

For years, in pushing the "aggregate demand" resulting from the combination of government and private spending, the Keynesians quite overlooked the impact of their policies on supply. They did not see the distortions in prices that were caused by inflation and high taxes. And so they ran us into a high-cost economy in which the tax "wedges" and the bite of inflation destroyed more purchasing power than they created.

Thus the stage was set for the emergence of the "supply siders." The phrase may be misleading: economics, being fluid, cannot afford to forget that supply and demand are both parts of an integral process. But after forty years of pumping up "aggregate demand" by policies that have severely restricted entrepreneurship, it is time that someone should speak up for the tax-harassed and inflation-bedeviled producer.

To explain the current situation,

six economists have collaborated on a stimulating though sometimes cloudy book, *Essays in Supply Side Economics,* edited by David G. Raboy and with a foreword by Edwin J. Feulner, Jr. (Published by the Institute for Research on the Economics of Taxation and the Heritage Foundation, 173 pages, $5.95. Available from IRET, 1725 K Street, N.W., Washington, D.C. 20006) Feulner, the head of the Heritage Foundation, says in his foreword that the conviction that supply side theory will work "is for most people a matter of intuitive knowledge." But, aside from Jack Kemp and a few others, we don't send people to Congress who are long on intuition. We need something to combat what Feulner describes as "the misconception that supply side economics is a political movement with little or no economic theory behind it."

Origin of the Concept

The second essay in the book, written by David Raboy, traces "the theoretical heritage of supply side economics." Logically, this essay should have come first. Raboy, who is director of research at the Institute for Research on the Economics of Taxation, thinks "supply side" is more or less synonymous with classical economics in general. The supply siders believe that saving is the driving force of investment, and that without investment there can be no increase in real wages. This is what Adam Smith believed. J. B. Say, the French economist, was a supply sider when he argued that the overall level of demand in an economy is dependent on the level of output and that as investment and production increase, so will demand. (This is often summed up as "production creates its own purchasing power," which is obvious when you consider that production pays wages and dividends that go into the stream of spending and new investment.) J. B. Say anticipated John Stuart Mill, another classicist, when he said that when any transaction is finally closed, it will be found that one commodity has been exchanged for another. Money, when untampered with, performs a neutral role—sales, according to Say, "cannot be dull because money is scarce but because other products are so." It is the multiplication of the "other products"—the supply side—that keeps the economic process going.

The "marginalists"—Carl Menger, Stanley Jevons, Leon Walras, John Bates Clark—were all supply siders, as were Alfred Marshall and Vilfredo Pareto. "Menger's analysis," says Raboy, "provides a crucial building block for supply side economics . . . economic decision making occurs at the margin. Then the way in which taxes, monetary theory, or government spending will affect economic behavior depends on their effects at the margin, on the valuation of activities or commodities."

Impact of Inflation on Taxes and Productivity

In the opening essay, "Supply Side Analysis and Public Policy," Norman B. Ture, who is Undersecretary of the Treasury for Tax and Economic Affairs, says the pertinent question "is how changes in real aggregate demand can occur without a preceding change in total output." Taxes, of course, alter relative prices or costs. High taxes, reflected in prices, can change the whole "effort-leisure trade-off." Ture provides an intricate analysis of the drag on the economy that comes with Keynesian stagflation. Inflation, he says, augments the existing tax bias against effort and saving "by increasing the real marginal rates of income tax."

Mai Nguyen Woo, a research associate at the Institute for Research on the Economics of Taxation, develops some of Ture's insights in her essay on "Taxation, Savings, and Labor Supply: Theory and Evidence of Distortions." Constructively, she offers a theory that a tax on consumption would be a great improvement over our present "hybrid" tax system that penalizes capital formation.

The remaining essays in the book are rather specialized. David G. Tuerck, formerly with the American Enterprise Institute, talks about "Rational Expectations and Supply Side Economics: Match or Mismatch?" He concludes that taxes "distort relative prices by forming a wedge between the price offered by buyers and the price received by sellers." This discourages employment "by forcing the worker to hand over to government part of the wage employers offer for his services."

Richard E. Wagner, who teaches at Florida State University, discusses "The Enterprise System, Democracy, and the General Welfare: an Approach to Reconciliation." He makes a distinction between "special interest" democracy and what he calls "consensual" democracy. The "consensual" democrat won't object to government spending for "general" benefits such as police, fire, sanitation, recreation and transportation. But, after digesting the supply side message, the consensual democrat will oppose "the use of government as a vehicle for transferring wealth."

Finally, Naomi R. Lamoureaux, a professor of history at Brown University, offers an essay called "From Antitrust to Supply-Side Economics: The Strange History of Federal Intervention in the Economy." She notes that the "regulatory functions of government" have "destroyed business initiative and diverted the allocation . . . of resources away from their most productive uses."

EVERYTHING YOU HAVE: THE CASE AGAINST WELFARE

by Jerome Huyler
(The American Declaration, P.O. Box 324, Brooklyn, NY 11219), 1980
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Reviewed by Brian Summers

THROUGHOUT our nation's history, there have been people who used the government for their private advantage—a tariff here, a land grant there, a subsidy or two. But until recent decades, such special privileges were limited to a powerful few.

What has been the exception, however, is rapidly becoming the rule. Where Americans once sought a fair field with no favors, their descendents now demand special benefits.

This ever-widening system of legislated privilege, Jerome Huyler shows, is destroying the American dream and bringing our economy to its knees. One man's special benefit is another man's burden. As these burdens have grown beyond the taxpayers' willingness to pay, the federal government has resorted to deficit financing. When these deficits are monetized, prices tend to rise. And when the Federal Reserve System responds by tightening credit, the economy is plunged into a recession.

But the price we pay for welfare exceeds all the taxes, all the Federal deficits, and all the jobs lost through inflationary recession. We also are losing our liberty. What the government subsidizes it soon controls, as Huyler illustrates with the Medicare/Medicaid system. When these subsidies lead to rising prices, every American is threatened with controls over his wages, prices, and the allocation of essential goods and services. What begins with compassion ends as coercion.

Huyler completes his case against welfare by appealing to the concept of human rights. In some of his most compelling passages, he shows how the welfare state, imposed in the name of human rights, violates the rights of the benefactors while it drains ambition and self-esteem from the beneficiaries. These recipients, reduced to a life of dependency, are the ultimate victims of welfare. And, Huyler concludes, it is the truly needy among these beneficiaries who would best be served by private philanthropy.