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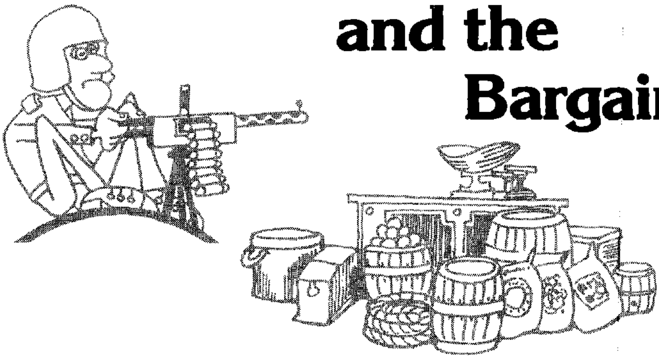
Ernest G. Ross

The Brigands and the Bargainers



IMAGINE a nation at civil war.

Imagine two great armies, intermingled guerrilla-style, battling in every city, every day, year in and year out.

Imagine the two factions' spokesmen, the intellectual lieutenants, interviewed every night on national television, calmly commenting on the terrible, destructive results of the chaos perpetuated by their opposing ideas.

Imagine the people looking on, bewildered and increasingly bitter, as the war divides them—splitting families, neighborhoods, universities, cities and states. See in your mind's eye the citizens' raw frustration as the civil war first propels their lives into stagnation and finally, into a slow disintegration. Conceive of these people drawn by the call of survival into resentful, envious gangs, looting one another's property and livelihoods.

If you can envision this, you have grasped not an imaginary war, but a real one. The war is not in Northern Ireland, Beirut or El Salvador.

It is the civil war of economics in modern America.

The two armies represent diametrically opposed ethics—the ethics of the Brigands and the ethics of the Bargainers.

The outcome of the war is far from decided.

Both sides are energetically trying to convince more people to join their camps. Their intellectual lieutenants are the economists, who also act as high-level recruiters. They are doing their best to persuade influ-

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ential politicians, teachers, students, businessmen and workers to "join up."

Choices About Right and Wrong

Of course, the economists have by and large already decided which camps they favor. They have done so on the basis of a fundamental ideational force which motivates all men. That ideational force is ethics.

Ethics is the branch of philosophy which deals with choices. Specifically, ethics is concerned with choices about right and wrong.

No one escapes the motivations of ethics. It is literally, by the nature of things, impossible to do so.

In order to live on this planet at all, each of us *must* make choices about what he considers right for his survival or wrong for it. Indeed, formal ethics, as codified sets of standards for living, undoubtedly evolved from observations of fundamental choices about what was pro-life or anti-life.

Therefore, in judging which camp to join in the American economic civil war, we must decide which side is governed by the ethics favoring human life and which side is governed by the ethics destructive to human life.

My contention is that the ethics of the Bargainers is pro-life and that the ethics of the Brigands is anti-life.

But how do I know? Who are the Brigands and the Bargainers? What, in practice, do they stand for?

I recently sent spies into each camp. Here are the summaries of my agents' observations.

First, the report of my spy in the Brigands' camp:

"The first thing I noticed upon infiltrating this enclave is an air of pervasive tension. It is not the healthy tension of minds eager to engage in exciting new work, but the corrosive tension of fear.

"After surreptitiously observing and interviewing everyone from lowly workers to top brass bureaucrats, I have concluded that a fundamental premise underlies all economic actions in this camp: Everyone believes that the way to 'get things done' is to force someone else to do them. This is the ethical heart of those you have tentatively designated the Brigands. I believe the designation is appropriate.

"If a bridge or hospital or road or store is needed, the labor is conscripted. The money to pay for construction is taken from the people either directly through a penalty on wages or production (called 'taxation') or indirectly through expansion of the fiat monetary system (called 'inflation'). These things are implemented at the discretion of the state—often under threat of fines, imprisonment or worse against those citizens foolish enough to resist.

"You must understand that *all*

wealth is considered to be first and foremost the property of the state. As one elderly gentleman cynically put it to me, 'Everyone's belongings belong to everyone else.' The official state euphemism is, 'All wealth belongs to the people.' In practice, it *is* the state—or rather, those privileged few who govern it—which owns the wealth.

"I have observed that the psychological/economic consequences on the average individual are extreme. No man feels that his possessions, his residence or his work's products are secure (despite official slogans that the Brigands' system provides the ultimate in 'Social Security'). Each man is perpetually suspicious of others, fearing that they may be, or have connections with, politically more powerful people who could, on almost a moment's notice, uproot all that he has. As a consequence, this is a staggering, stagnant economy.

"Except among the young, fire-eyed idealists (who believe the slogans because they've not yet been worn down by the system), there is simply no individual incentive to work hard. As one weary middle-aged man told me, 'I should work my hands to the bone? For what, when what I make today they will take tomorrow?'

"What real work people do engage in is in 'The Underground,' the black market. Compared to the official state economy, I must say, The Underground flourishes. Even with the severe, crushing penalties for participation in black market ventures, The Underground alone offers the promise of significant improvement in one's personal and family life. Even so, the black market is not truly a free economy; psychologically, the fear of discovery by the Brigands' agents always hangs heavily and gloomily in the background.

"This was the essence of my observations. Details of the mismanagement, shortages, inefficiencies, breakdowns and so forth, follow. . ."

The Bargainers' Camp

And here is the report of my man sent to the Bargainers' camp:

"Well, sir, first I must say that you gave me an unexpectedly easy and exhilarating assignment! At no time did I feel like a spy! I didn't have to 'infiltrate' anything. I simply walked or drove (transportation for a quick and reasonable fee is readily available everywhere) and no one bothered me. In fact, the atmosphere was one of cheerful helpfulness, even though everyone seemed quite busy.

"After interviewing a representative cross-section of this enclave, I have concluded that most everyone believes the way to 'get things done' is to do them yourself—and if you can't, then you negotiate with someone else to do the work or help you. This negotiation process—which they call 'bargaining'—is largely automatic. Or, perhaps it just seemed that way to me because they do it so naturally.

"For example, if an individual wants to buy a television set, he simply walks into a store (or several stores, in a process called 'shopping around'), looks over the types of T.V. sets (called 'brands,' representing different, private manufacturers), decides which one he wants and then pays for it. Often he will pay with small, privately minted metal castings called 'coins,' usually of gold or silver. But more often, he pays by 'check' or 'credit card,' systems which act as claims on gold or silver (or notes for same) which the citizen has stored in any of a dozen varieties of private institutions called 'banks,' 'S and L's,' 'brokerage houses' and so on. There is no official government currency.

"(As a side note, I ran into my counterpart from the Brigands' camp. He told me that there were always long lines at state stores—except those run especially for the bureaucracy. I never found this to be true in this enclave, although I did once have to stand in line for nearly two hours to see a popular anti-tyranny science-fiction movie called 'Star Wars III.')

"The way things work here is like this:

"If a bridge or hospital or road or store is needed, people pool their wealth to build it—usually with the hope of charging other people for the use of the facility, eventually offsetting the original investment and all the while bringing in 'profits' (a type of income for entrepreneurs). Sometimes, incredibly, these people will build certain facilities—as to house the indigent—with money raised entirely through donations; there seems to be no shortage of private generosity!

"The Bargainers' system, I have observed, provides enormous incentives. Virtually everyone feels that if he works hard, he can, sooner or later, significantly improve his personal and family life. As paradoxical as it may sound, the ever-present opportunity to risk their economic necks makes these people feel secure! (They even have a name for that opportunity—freedom, and a popular slogan to express it—'The Land of Opportunity.')

"I cannot honestly say there is an 'underground' economy here; it is all *above* ground! The state does not enter the picture by either restricting or subsidizing trade.

"There *does* appear to be a minimal state here. I wish to emphasize, these people are not anarchists. But the state's activities are strictly defined and limited to defensive-related actions—military, police, courts. The people seem constantly watchful to keep the state in check. Indeed, to my surprise, they have devised innovative systems to handle things which might otherwise be state functions, such as private courts and some private police. Even the military is handled through private financing (a type of insurance policy), the people feeling that their liberty is a good investment.

"This concludes the basic summation of my observations. Details of the efficiencies, high productivity, variety and quality of goods and services and financing methods follow. . ."

Of course, in our modern America, the camps of the Brigands and Bargainers are intertwined; they are our mixed economy. Often the ethical loyalties of individuals themselves are stretched and bounced between the Brigands and the Bargainers.

Whether we wish it or not, we are all in the fray, all involved in the American civil war of economics.

Free economics is the banner of the Bargainers; coercive economics is the banner of the Brigands.

I'm joining the Bargainers.

Where do your ethical loyalties lead you?

Man's Destiny: Forced or Free?

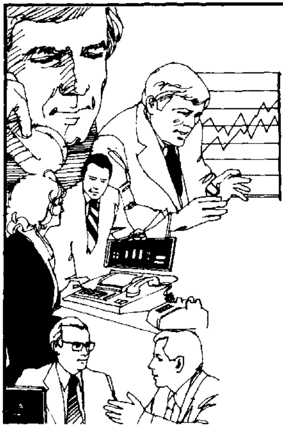
IDEAS ON LIBERTY

FROM the colonial and frontier days down to the more recent times, when a tide of mostly poor immigrants from Europe swelled the population, America's national success story has been an amalgam of the individual success stories of boys, born in poor families, who started at an early age to help their parents and themselves by taking any available odd jobs, combining this with school and college study, and later becoming more or less prominent business and professional men. Looking back to their boyhood, these men almost invariably recognize that this early experience in work and self-reliance was immensely beneficial to them in adult life.

But today's well-meaning lawmakers have added so many minimum wage and other restrictions that it is impossible, in many cases, for an employer to hire young people without paying them more than they are worth. Here is one of the most obvious artificially created causes of youth unemployment and of juvenile delinquency. For it remains just as true now as in the days when the proverb was more frequently quoted that Satan finds plenty of mischief for idle hands.

WILLIAM HENRY CHAMBERLIN

E. C. Pasour, Jr.



Small Business and Entrepreneurship

BUSINESS NEWS in the United States focuses on economic activities of giant corporations. In recent years, for example, politicians and newspaper editors have castigated the "obscene profits" of "Big Oil." A large increase in profits by Exxon, IBM, and other large corporations frequently evokes calls for divestiture. The conventional wisdom is that the American economic system is dominated by large corporations because big business firms are so productive that small firms cannot compete. In this view, ever vigilant government regulation of these large firms is required to prevent exploitation of workers and consumers.

In addition to the concerns about "big business," there is a growing feeling that the entrepreneurial spirit has lost its vitality in the "new industrial state." The rate of increase in labor productivity has been decreasing over time, and United States business firms have become less competitive with foreign manufacturers in the production of a wide range of products including automobiles, watches, steel, and television sets. Current economic problems including financial difficulties on the part of Chrysler, International Harvester and other large companies, the slowdown in labor productivity, and a rising level of unemployment have evoked calls for the U.S. Government to underwrite a "reindustrialization" policy. More central economic planning is held to be necessary to revitalize American industry and provide jobs both for the unemployed and for new entrants into the labor force.

The purpose of this paper is to show that the preceding scenario is not an

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accurate description of the business environment in the United States or in other countries where entrepreneurial incentives are not stifled by inflation, taxes, economic regulations, and other factors contributing to an unfavorable business climate. Small business, already the most important source of innovative activity and new job opportunities in the United States, can play an even more important role with an easing of the restrictions on entrepreneurial incentives. A market economy is a dynamic discovery process generated by the competitive entrepreneurial scramble for profits.

Entrepreneurship and the Market Process

In a free enterprise economic system, expected prices and profits provide incentives for entrepreneurial activity. If market participants had perfect information, all market activity would be perfectly coordinated and there would be no profit opportunities nor role for profit-seeking entrepreneurs. In a dynamic economy, however, market conditions are constantly changing due to the invention and introduction of new products, changes in production technology, changes in consumer preferences, and so on. Consequently, there are always profit opportunities available for alert individuals with innovative ideas.

Entrepreneurship may be aptly defined as an alertness to profit opportunities which have not been grasped and acted upon by others. It should be stressed that the potential for (and expectation of) profits in the competitive market process creates powerful incentives for profit seeking individuals to discover and make use of information before it is widely known by other people.

In a fundamental sense, entrepreneurship is the key to market creativity. Business firms are induced by the profit motive to search for a unique profitable niche. This search for profit may take a number of quite different forms. An enterprising firm, for example, may invent and produce a new product. Henry Ford, the founder of the Ford automobile company, provides a classic example of successful entrepreneurship based on this approach. However, the creation and development of a new product does not ensure financial success for the inventor. Of the thousands of inventions each year in the United States, only a handful prove to be an economic success. In order for a new product to be profitable, the producer must be able to sell the product and at a price high enough to cover the production costs (including a return to management).

Another possible road to profits is to advertise or market a product in a way that differentiates the product in the eyes of the consumer. McDonald's, for example, reaped substantial profits as a pioneer in the production and selling of "fast food" hamburgers. This profitable business organization soon spawned a host of close competitors. Regardless of the road to success, the effect of profits on competition is predictable.

Profits invite competition and ensure that rival firms will compete to erode the profit advantages of the innovating firms. The result is that profits, whether due to the nature of the product, the conditions under which the product is sold, or to other special advantages, are invariably short lived unless the profitable firm can obtain the aid of government to restrict or exclude competition. In all countries in the developed world, there is a long history of the use of tariffs, patents, franchises, and other government enforced restrictions on competition. The conclusion is that monopoly advantages which persist over time are invariably due to governmental restrictions on entry by potential competitors.

Entrepreneurship and Job Creation

The preceding discussion emphasizes that entrepreneurship is not a sure and certain road to profits. In a dynamic economy where economic conditions are constantly changing, entrepreneurship is, by its very nature, a high risk activity. Economic growth in a rapidly changing economy depends upon a large group of individuals who are willing to engage in risk-taking activity. It is estimated that more than two-thirds of all new business ventures in the United States collapse within five years. Despite the high failure rate of new firms, it is small firms rather than large corporations which are primarily responsible for economic growth and technological innovation. Small firms appear to be both more flexible and more inventive.

New developments seldom emerge from the leading companies in an industry, and even if a breakthrough is made by a large well-established firm, the new item is often launched by smaller firms. The result is that the more dynamic the local economy (e.g., Houston, Texas), the greater the risk-taking and the greater the proportion of firms that fail. A recent study of job creation in the United States by a group of researchers at the M.I.T. Program on Neighborhood and Regional Change found that the most successful business areas of the country were those having the highest rate of innovation and business failure—not the lowest.

The implications of these findings for job creation are startling. Large firms in the United States are not the major source of new job opportunities. The study alluded to above found that two-thirds of the net new jobs in the United States from 1969–1976 were created by small firms having fewer than 20 employees. A closely related finding revealed that 80 per cent of net new jobs were created by businesses no more than 4 years old. The fact that most new jobs are created by small business should not be surprising since, as suggested above, small firms have the capacity to start up and expand rapidly.

Shifting Job Requirements

There also has been a shift in the kinds of these new job opportunities. New jobs are predominantly associated with the production of services as opposed to jobs in the traditional "goods" industries—manufacturing, agriculture, construction, and mining. This shift in production from goods to services implies a shift from "brawn to brain" and an increasing dependence on education and training rather than physical capital.

Other countries are experiencing shifts in the nature of job requirements similar to those observed in the United States. Accompanying the shift toward the service sector has been a shift in the method of financing. As Nobel Laureate Milton Friedman points out, risky ventures have almost invariably been financed by small groups of individuals risking their own funds or funds of their relatives and friends. This method of financing contributes toward the increased flexibility and adaptability of small business.

The preceding discussion should not be taken to suggest that large corporations are not important in the U.S. economy. Large firms play a vital role, both as a source of jobs and in consolidating the advances pioneered by small firms. There appears, however, to be little basis for the widespread feeling that large firms have increased their competitive advantage over time due to technological developments. George Gilder in his recent best seller, *Wealth and Poverty,* finds that aside from communication satellites, there is no evidence that recent changes in technology have worked to the advantage of large firms. It is the small firms that are best able and most likely to respond to rapidly changing economic conditions.

Implications for Economic Planning

In view of the crucial place of small firms in job creation, what are the implications for the role of government in fostering economic growth? The political muscle of large firms makes it more difficult for market signals to operate. Chrysler and other large corporations in financial difficulty generate attention by the news media and bring calls for government aid. The number of jobs at stake in such cases means that the fate of these firms is likely to hinge on political considerations rather than on basic economic conditions. Propping up large scale noncompetitive firms through governmental assistance is to subsidize incompetence. A small business employing relatively small numbers of workers is more likely to have the opportunity to succeed or fail on the basis of economic factors rather than political expediency.

Since most new jobs are created by small firms, it might appear that government should intervene directly. A policy of direct government intervention to assist small firms, however, is difficult to formulate—even in theory. The success of any particular firm hinges not only on what that firm does but also on what its current and future competitors do. Thus, success hinges on technological developments as well as on business conditions.

There is no way to predict technology or future knowledge of any kind since, if this were possible, future knowledge would become present knowledge. Since the risk of failure is very high for small firms, in a policy of direct government intervention a decision would first have to be made as to *which* firms to assist. However, there is no accurate way to predict firm success, and government assistance of large numbers of unprofitable firms would be both politically unfeasible and economically unwise. Thus, direct government intervention becomes less and less feasible in an economy where small service-oriented firms are increasingly important in providing job opportunities.

In view of these problems associated with direct intervention, a more feasible alternative is for government to stress the creation of a favorable business climate—to adopt policies which are consistent with risk-taking and entrepreneurial activity. In this business climate approach, the role of government is largely passive and necessarily limited. Consequently, the suggested approach involves a definite change in government policies.

There is a consensus that high interest rates, high marginal tax rates, and government regulations have actively *discouraged* risk-taking and innovative activity in the United States. During the past decade, savings by individuals and business firms have been discouraged because gains were taxed at high marginal rates even though such gains were, in many cases, not real but due solely to inflation.

High Interest Rates Hamper Entrepreneurial Activity

Entrepreneurial activity in the United States in recent years also has been hampered by high and rapidly changing interest rates. It is always difficult for business firms to make decisions based on anticipated future conditions. The difficulty and the cost of mistaken forecasts increase when interest rates are high. There is a direct link between inflation and interest rates.

Nominal or money interest rates consist of two parts. The first part, a real interest component, is based on time preference—the extent to which people place a higher value on consumption in the near future relative to the more distant future. Although there is no way to measure the real interest rate, economists have generally assumed this rate to be around 3 percent.

The money rate of interest equals the real rate of interest plus a second part, the anticipated rate of inflation. This inflation component has been the dominant factor in the money rate of interest in recent years, and reduced inflation is a necessary condition for a reduction in interest rates. Thus, governmental monetary and fiscal policies to control inflation along with a reduction of taxes and regulations are important in establishing the economic climate necessary for increased saving, investment, and capital formation.

What are the implications of the preceding analysis for central economic planning? It is sometimes maintained that while a limited role for the state was feasible in sparsely-settled nineteenth-century America, it is inevitable that government must play a larger role in economic planning in an increasingly urbanized and industrial society. However, as shown below, information problems intensify as the complexity of society increases which makes reliance on market prices *more* necessary and government planning *less* feasible.

Price Signals

Market prices are the signals which direct economic activities for consumers and producers in a market economy. When the price of oranges increases relative to other fruits, for example, consumers reduce their consumption of oranges. When the price of small cars rises relative to that of large cars, auto producers shift more resources into small car production. It is through this market process that relative prices induce individual decision-makers to respond to changes in economic conditions regardless of firm size.

The market integrates and mobilizes information automatically without any person having to gather information together in one place. The housewife in New York City, for example, may know nothing about a poor coffee crop in South America, but she adjusts her actions to it when the price of coffee rises. At the same time, price and profit signals provide incentives for the discovery of new facts which improves the adaptation of market participants to ever changing circumstances. Thus, market prices convey an immense amount of information to market participants which makes possible the utilization of more data than is possible through any other known means of coordinating economic activity.

The factors which cause prices to change and thereby guide the behavior of decision-makers in a market economy are influences which would need to be taken into account in any conceivable system of coordinating economic activity. Moreover, no other way has been discovered for coordinating and transmitting information in the organization of production to accommodate consumer's wants which even approaches the efficiency of the market process. Thus, there is inevitably a loss of information when price signals are suppressed or overridden by minimum wages, rent controls, price ceilings, or other forms of wage and price controls.

Prices are important information signals in any market economy and information becomes more important as society becomes more complex. Consequently, the importance of market prices in coordinating economic activity increases with the complexity of society. The result is that central economic planning is *more* difficult and less feasible in a modern industrial economy characterized by rapidly changing economic conditions.

Conclusions and Implications

A generation ago, a famous economist, Joseph Schumpeter, predicted the withering away of the entrepreneur. In a view later adopted by many economic analysts, Schumpeter considered entrepreneurship to be crucial only in the early stages of capitalist development. In the "mature" phase of capitalism, economic activity was to be dominated by a combination of large corporation and government bodies leaving no scope for individual entrepreneurship. Today, many people still feel that the small inventors and fabled entrepreneurs of early capitalism are a dying breed having no role to play in the "new industrial state."

The actual situation concerning entrepreneurship and small business bears little resemblance to the scenario just depicted. Although large corporations dominate the business news, small business provides the dominant source of new job opportunities in the United States. Small firms, by their very nature, are more flexible and better able to adapt to ever-changing but unpredictable economic conditions. Under these conditions, pleas for a "reindustrialization" policy guided and aided by government are fundamentally misplaced. Rather, emphasis should be placed on improving the investment climate as a means of fostering entrepreneurship and small business activity.

Inflation, high taxes, and widespread government regulations inhibit entrepreneurial activity for firms of all sizes. Entrepreneurship is especially difficult under inflationary conditions both because the uncertainty created by inflation makes planning more difficult and because inflation causes income to be overstated for tax purposes. Consequently, the government can contribute importantly toward a favorable business climate through noninflationary monetary and fiscal policies.

Small business now plays a crucial role in the rapidly changing modern industrial society. If, as seems to be the case, there is a further shift away from the production of autos, steel and other products in which the United States once had a comparative advantage, the solution lies not in trade barriers and protection or other attempts to insulate these industries from market forces but in developing those products in which the United States *is* competitive.

The United States, for example, is the leader in producing "thoughtware" (software as compared with hardware) upon which so much of new technology is based. New technologies such as the laser and microbiology are on the horizon. However, the precise direction of these developments is unknown and anyone who predicts the technological future is sure to soon appear foolish. Consequently, the importance of entrepreneurial activity in ferreting out profit opportunities will continue. Moreover, regardless of which products prove to be most profitable for U.S. business, there is little question that small business with its inherent advantages of flexibility and adaptability will be at the cutting edge of these new developments.

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Competition Equals Freedom

IDEAS ON LIBERTY

COMPETITION is nothing but freedom looked at upside down. In a market where buyers are free to shop around, sellers must outdo each other to get and keep customers. Through competition there is produced the maximum of goods and services that the public wants most.

HART BUCK, "Freedom to Shop Around"

Ridgway K. Foley, Jr.

The Elements of a Fair System of Taxation

THE current mania for tax limitation, tax reform or tax protest provokes the more intense inquiry into the rationale and justification for any system of taxation and the proper structure of a fair conceptual framework for exercise of this state power. This essay presents a brief analysis of the issue and poses a simple solution much more in harmony with the idea of individual freedom than any existing dogma.

The Basis and Uses of Taxation

The ideological roots of taxation rest in the good earth of sovereignty, that compelling state power over the rights of individuals.[1] Traditionally, the three common attributes of sovereignty consisted of the power of police,[2] of taxation, and of eminent domain. From tribute paid involuntarily to the most evil or cunning or powerful by members of the tribe, to the king in his counting-house, to the modern exchequer and internal revenue agents and audits, the theory of taxation has changed little: those in control of the apparatus of the state exact assets and value from serf or citizen in order to pay for governmental obligations and services.

It becomes possible to identify three uses of the sovereign power to tax: the raising of revenue, the looting of citizens, and the implementation of social policies. Reason would suggest that only the first rationale deserves support, although one could

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cogently urge that the appropriate analysis of that concept does indeed implement a social policy, the policy of non-intervention in voluntary human action.

Taxation of persons as a means of raising revenue probably pre-exists recorded history. Operating on the assumption that all mankind within a given perimeter benefit from the existence of the order of the state, princes and their modern counterparts have long demanded tribute under force of law. Simply stated, taxation supports the state by supplying necessary revenue.

Like collecting revenue, the employment of taxation as a means of systematic looting and banditry antedates the dawn of history. Derived from the sinister side of the human actor, taxation can be enlisted as a handy label to obscure outright thievery. By its very nature, taxation requires coercion, not voluntary action, on the part of the subject; therefore, the master can appeal to law or theology or some other stratagem to justify his confiscation of the wealth created by another. History is replete with examples of the powerful and banal invoking "law" to line their pocketbooks and purses.

The practice of taxing to encourage or induce "social" policy appears of more recent origin, yet it is quite as wicked as the habits of the pickpockets of yore. The tactics are similar: those in power determine a "good" or "just" end and rob the productive to pay for that goal. For example, the populists in power may perceive that the wealthy individuals in society do not deserve all of the assets which they have secured through honest trade; therefore, by the means of progressive tax laws, the more wealth created and employed, the higher the tax payments levied, so as to achieve a leveling process and a misplaced, false egalitarianism. The entire modern program of entitlements owes its genesis and continued vitality to this very simple tactic once made famous by Robin Hood; the only difference resides in the fact that the modern counterpart of the Sherwood Forest rascal enjoys immunity from prosecution since he defines the issues and makes the rules.

The First Question: Is Taxation Proper in Any Form?

The rapidity of modern life encourages thinkers to leap to incomplete conclusions without plodding through the necessary intermediate steps. The initial question under the topic considered is not, what is a fair system of taxation? Rather, the fundamental inquiry must be, is any tax structure philosophically permissible as harmonious with the freedom philosophy? Only if the seminal inquiry is answered in the affirmative may we proceed to another question.

I have addressed this key question

in general terms elsewhere[3]; it would not do to repeat the analysis at length here. For me, a justification for the existence and life of the state arises from a Rule of Necessity premised upon the incontestable nature of man. The socialist and the anarchist fall into the same trap: they fail to observe that man is not capable of perfection; rather he is possessed of a wicked side and while able to improve he is never endowed with the inherent ability to achieve perfection.

The Rule of Necessity augurs that a free and orderly society must possess a state force to prevent internal and external fraud and aggression and a mandatory court of last resort to settle otherwise insoluble disputes. Without these limited state powers enforced by the monopoly of coercion, mankind would always be at the mercy of the strongest and most vicious members of the world. Beyond these necessary restraints, the state should not interfere with the market for creative human endeavor.

The anarchist argues that the need for personal protection and dispute resolution can be met by private defense agencies and private judicial arbitration. But what if someone refuses to play by the rules? What if an aggressor, convinced of the propriety of his position, employs force and wipes out your defense agency? What if a disputant refuses to come to arbitration or to abide by the arbitrator's decision? There must be some community-recognized and supported court of last resort to protect rights and enforce judgments, else the world will quickly trundle into civil chaos, mountain feuds and mob warfare, with no rules except "might makes right."

Why Voluntary Taxation Is Not a Feasible Concept

The realm of tax policy has introduced a like idea which must be mentioned, analyzed, and discarded: the concept of voluntary taxation. Of course, "voluntary" taxation represents an impossibility, a contradiction in terms, because by accepted definition, taxation is never voluntary but always coercive (although members of society may acquiesce in the form of government and its application of coercive powers).

The doctrine of voluntary taxation proposes that public works projects be submitted to the vote of the electorate for approval; those casting a negative ballot may show that vote to the clerk and receive a certificate of exemption from taxation for the particular project should it pass.

Without discounting the procedural difficulties in administration of such an enterprise, voluntary taxation in this form suffers from a more serious defect: it tends to approve government intervention in economic enterprises in which it has no business. If it is wrong for the state to build and maintain port facilities, airports, municipal auditoriums, domed stadiums, hydroelectric projects and a host of other endeavors, then it remains wrong even if the dissenters are saved from taxation to support the businesses. Those activities beyond keeping the peace and settling wrangling can be done much more efficiently privately and with a higher moral tone and the voter should not be forced to lend tacit approval to government meddling where it doesn't belong.

Moreover, justice demands that all participants in society pay a fair share of the cost of maintaining order in that society. The exemption described heretofore disparages that principle by excluding the dissenter from the cost, albeit for a laudable purpose. If the function is properly one which the state should perform, all should pay equally; if the function resides beyond the limited powers of government, then none should be mulcted for that purpose and the matter—if worth doing at all—should be left to private entrepreneurs.

The Role of the Voluntarist

Properly viewed, then, government, the repository of organized coercion, possesses certain legitimate functions: keep the peace, prevent the application of force or fraud by one man against another, and provide a fair, common and equal system for settling disputes and administering justice.

These functions require funding: judges and policemen must be paid a fair salary in order to induce competent people to serve; records must be maintained for public observation; the machinery of government must be housed in appropriate quarters; the necessary and proper implements for carrying on these obligations—firearms, paper, gavels—must be purchased.

Believers in freedom often suffer the accusation of negativism. True, the consistent voluntarist thinker seeks to reduce a government to its proper minimum. In searching for reductions, he must, of necessity, oppose spending of public monies for improper and wasteful functions and ask that well-meaning programs be achieved by cooperative action, not coercive sanction. Nevertheless, the adherent of limited government need not always fit the mold of unswaying opposition, for he recognizes that true state responsibilities require government activity and, within the ambit of the legitimate conduct of government, he seeks ways to perform the job well. After all, for more than 6,000 years of recorded history, no state has approached perfection in performing the proper, i.e., legitimate, but limited functions of government.

The tax system represents one place which demands constructive affirmative action from the free individual in our society. Creativity and ingenuity proceed from adherence to fundamental principles; the voluntarist should possess those eternal values which enable him to construct a mode of taxation according to the rigors of a free society. Thus, like Diogenes' quest for an honest man, our search for a fair tax system (to support a legitimate, limited government only) goes forward.

Types of Taxation in the Present World

Modes of taxation proliferate, restrained only by the limits of human ingenuity or imagination. As we approach the waning years of the twentieth century, more than two centuries into our nation's history, the United States bears witness to a plethora of taxing devices. State and nation tax net income in progressive fashion. States collect fees, licenses, franchises and permits. States levy sales and use taxes upon the purchases of some or all commodities. Congressmen clamor for a value-added tax so prevalent in Europe which imposes a national sales fee on each step of the production and distribution process in our complex world. Net estates of deceased citizens suffer the ignominy of another progressive assessment, usually by both the federal and (sometimes more than one) local government. Highway use taxes apply to gasoline consumption. Even gifts beyond a limited exemption are taxed on a progressive scale. Real property, assailed by a bewildering variety of measures, bears a disproportionate burden at the state and local level. Certain luxuries carry additional taxes. Customs duties on imports add to the cost. In some jurisdictions, personal property or goods held for sale are assessed once a year. A mere litany would unduly lengthen this treatise and boggle the mind to boot.

Disguised Forms of Taxes

Beyond these specific taxes lie the more invidious assessments imposed by the state—more invidious because they are not called by their proper names. Social Security offers a prime example. Truly a tax, this exaction bears the label of an "insurance" payment, a misleading term since the law provides neither fund nor true voluntary insurance.[4] Estimated income taxes and withholding payments likewise constitute disguised methods of increasing taxes: a citizen's income tax bill falls due 3½ months following the close of his tax year yet, by these devices, the federal and local authorities deprive the taxpayer of the income he could have earned on his funds between the time he acquired them and the tax due date.

Surely, inflation constitutes the most invidious and unfair tax of all. We properly call inflation a tax because it results strictly from governmental meddling with the market system. Ancient monarchs clipped coins and practiced other petty debasements. Our government for many decades has ruled by deficit spending and, when the powers that be wish to fund their little schemes, they debase the currency (no longer bound by the market laws associated with the gold standard) by churning out tons of paper dollars. The increase in the federal money supply causes the phenomenon we label "inflation": the more dollars in circulation relative to the value of created goods and services, the less each individual dollar is worth and the more dollars it takes to purchase a given good or service.[5]

Inflation operates as the cruelest tax of all because (1) it is not labeled as a tax, (2) it penalizes the thrifty, and (3) although occasioned by government policies, the politicians habitually blame other alleged causes and thus misdirect the anger and corrective powers of the citizens. One cannot imagine a more unjust situation than a hard-working laborer who, by thrift and foresight, saves up to $50,000 during his working life, by forgoing luxury expenditures and restricting his consumption, in order to provide for his family when he is too old or too ill to work, only to discover that his hard-earned fund will only buy $5,000 worth of goods. Yet that is precisely the result according to the decline in the dollar purchasing power since World War II.[6] Outright thievery would seem less painful.

The Elusive "Fair Share"

Reflection suggests that a fair tax system might contain two basic ingredients: First, each citizen should pay his fair share of the costs of government; second, the government should only tax real value, not fiat money inflation.

What constitutes fairness in taxation? In the first place, the proceeds should only be used to pay legitimate costs incurred by a limited government. In the second place, since every citizen receives theoretical benefits from the functions of the state so every citizen should contribute on a relatively similar scale as his neighbor. A cardinal rule in taxation should require those persons who benefit from government activities to pay therefor.

Advocates of progressive taxation assert that "from each according to his ability to pay, to each according to his need." In other words, those who produce more value should pay progressively greater taxes.

This postulate rests on both spoken and silent fallacies. The creator-of-value benefits no more from the proper functions of the state than does the derelict; to each man, safety of person and ability to settle disputes without civil chaos represent ultimate values. Since the producer secures no greater benefits, justice does not demand larger payments. The "ability to pay" justification dwells, in final analysis, upon the "principle" that "might makes right," that it is just and proper to band together to take by force from one man that which he has produced and to give these ill-gotten gains to another individual without the voluntary action of the producer. Since the justification fails, the proposition should lose vitality.[7]

Likewise, exactions levied against certain kinds of property or purchases to the exclusion of others bear little fidelity to fairness. Thus a property tax levied against residential and commercial real property exclusive of that owned by the state and its minions, falls too heavily upon one group of people to the exclusion of others in society. Those who do not own property pay a lesser share of the tax (through rent) particularly in an interventionist society where rent, wage and price controls flourish. Luxury, sales, and use taxes fall more heavily upon users of the taxed goods (hence the term "regressive" usually applied pejoratively to these taxes).

Elements of Confusion

Since income, estate, gift, and inheritance taxes generally partake of the progressive feature, they suffer from the "ability to pay" malaise. Moreover, these taxes also suffer from unequal application since semantic and definitional problems inhere in deciding what constitutes "income" (is a scholarship, fellowship or prize "income"?) or a "deduction" (should medical expense and other taxes be deducted?) or an "exemption" (should a person be entitled to a tax break because he contributes to the support of another person?).

In addition to rampant fundamental unfairness, modern tax systems suffer from gross inefficiency and waste of precious scarce resources. The amount of human energy — which could be creatively employed—wasted on regulating and complying with unreasonable and unnecessary rules and orders astounds even the casual observer. The various governmental units employ countless persons to write, interpret and decipher the revenue regulations, regulations which are so vast that no living creature can understand them fully. Those same public agencies utilize even more coercers in the form of auditors and agents and the like, men and women bent on enforcement of needlessly complex laws.

The taxpayer, on the other hand, must spend large amounts of time and energy mastering the rules and regulations and complying with the regulatory process all at the expense of his creative endeavors; after all, human time and energy represents the most productive and precious of our scarce resources which should be husbanded for higher endeavors. Again, the beleaguered taxpayer must hire a veritable army of tax preparers, certified public accountants, tax specialists, attorneys, bookkeepers, clerks and the like, just to satisfy the maze of rules and orders which pockmark the fair face of justice. Truly the cost of the present system, in economic terms of waste and inefficiency and in natural law terms of morality, represents too high a price to pay.

Indexing to a Constant Dollar: False Security

Measurements of income, assets, and expenditures in fiat currency produce several unenviable distortions in tax laws, leading to the suggestion by prominent authorities that the tax base—whatever the revenue program adopted—ought to be measured in constant dollars of uninflated value. In a modified form, for example, the Canadian Conservative Party proposed such an inflation discount in the 1972 elections and came within an eyelash of overturning the Liberal Trudeau government on this issue alone. Of course, the plan was hackneyed beyond all recognition with the political shenanigans so common to politicians who neither know nor care about sound economic theory. Nevertheless, the harassed Canadian taxpayers responded so favorably to the inherent equity of the idea that the Liberal government adopted a modified version of the plan as an essential part of its program.

On the surface, such a plan appears to possess merit. As the eminent economist, Henry Hazlitt, has long advocated[8], capital gains should be taxed in *real dollars,* not inflated currency. For example, suppose I purchase 100 shares of ABC stock in 1940 at $10 a share, establishing $1,000 as my basis. I sell the stock in 1980 at a price of $100 a share (sales price $10,000). Under current legislation, I would be assessed a tax based on a long-term (more than one year holding period) capital gain of $9,000, although varying distortions in the law currently treat capital transactions somewhat favorably. *Yet my gain is illusory because 1982 dollars are worth less than 10 cents in 1940 dollars.*[9]

Mr. Hazlitt suggests that the government should tax only the real (uninflated) gain on the constant dollar value and thus discount my $10,000 sales price to $1,000 (value stated in 1940 dollars). Thus, in the example chosen, I have realized *no* real gain, not a $9,000 inflation-wracked charade. Under this theory, if my sale discounted to constant dollars revealed a deficit position, I should be entitled to a tax loss for I have truly suffered a loss measured in real dollars, or dollars of constant value.

Other imbalances caused by inflation appear less readily but just as viciously. For example, the graduated income, gift, estate and inheritance tax schemes promote what is euphemistically termed "bracket creep," creating an evil sibling to the distortion discussed by Mr. Hazlitt: As the nominal wages of a taxpayer increase, he moves to a higher bracket or tax rate on his base although inflation has robbed him of any *real* gain and, in many cases, has placed him in a deficit position. The result: higher fiat income, higher tax rates, less real spending power, and a windfall to the taxing authorities.

Recent Proposals to Achieve Fairness in Taxing

As a result of these patent inequities, proposals have appeared in the past decade to apply a constant dollar approach to all tax forms.[10] For instance, the Oregon-based Research Committee Against Inflation proposed a net receipts tax on an indexed basis in the early 1970s. In such a proposal, the tax rate should be levied upon receipts valued without the inflation factor so that the taxpayer pays his share of the cost of government based upon what he really earned and what his receipts or "income" (in the broad sense) really will buy in the marketplace. The proponents argued that it makes little sense, and certainly does not accord with common fairness, to tax a man on money substitutes in terms of money substitutes which have been debased by the taxing authorities.

Let us consider a common example. Our taxpayer earns $15,000 in 1980 from all sources. That $15,000 will buy equivalent goods and services in 1980 to those which could be purchased in 1940 for $1,500. Now, does it harmonize with justice to levy any kind of tax on the $15,000 income when it is really only worth $1,500 in 1940 market power terms, particularly where the loss of purchasing power is solely attributable to the policies of the same body which now levies the tax? To state the question answers the inquiry.[11]

Application of this novel idea educes at least three complex issues. The first issue: What base year or years to use from which to measure inflation, since, according to Dr. Pick, "We started to project the financial syphilis all over the world in 1776 when Ben Franklin began the Continental dollar which became worthless after four years."[12] In the examples, 1940 has been used as the base year because, according to Dr. Pick, that represented the last inflation-free year in this country.

Undoubtedly, other economists using other measuring devices could disagree with Dr. Pick and suggest their own base years, inflation-free years, and rates of inflation. One could make a strong case for using 1914 (before the twentieth century wars and after a long period of peace during which time a relatively free economy existed), 1933 (before the nation left the gold standard, which imposes certain natural law impediments restricting currency nonsense), 1957 (subsequent to the Korean war and during a time of relatively balanced budgets) or any one of a number of other key years.

A Shifting 10-Year Average as a Basis for Taxation

Probably the fairest approach requires the use of a 10-year average which shifts the burden forward each year. For example, the inflation discount could be determined by using the federal government's own statistical studies for the years 1957–1966, *averaging* the inflation factor, and applying it to receipts during 1980. For 1981 receipts, the base-year average could be shifted forward to 1958–1967; for 1982, we could use 1959–1968; and so on.

The use of the shifting 10-year average strikes a relatively fair balance necessitated by the realities of the situation. No year forms a perfect measure, and no state-produced econometric tool offers an exact yardstick. Reaching too far back into antiquity may unfairly hamper the government because of intervening crises not truly the responsibility of the present men in power. Using a base period too close to the fact (Canada proposed 1970 as a base year for 1972) destroys the efficacy of the system which is designed to aid the taxpayer who has accumulated fiat currency.

A single year can disproportionately affect the currency because of world-wide fiscal, emotional, and natural disasters while a 10-year average should balance out the hills and valleys which beset any economic chart. The period 1957–1966 supplies a happy medium from which to start. Although budgets were never in balance at the outset, and the Vietnam war had not yet heated up, these inflationary factors proceeded apace as the period wore on; the real glut of currency production did not take place until the advent of the Nixon administration.

Measuring Capital Gains

The second issue concerns the interrelationship between assets purchased, held for a period of time, and sold, and other receipts. Capital assets, as explained, might be treated to a discount factor between the year of acquisition and the year of transfer. All other receipts could be discounted from the year of acquisition and the base-year period. Although gifts and inheritance could be treated similarly to capital assets, ease of application might require that they

TAXMANSHIP, a term sometimes applied to avoidance in its more intricate forms, might be called the active response to today's crushing tax burdens. It involves waste and irrationalities that may be as great a drag on growth as is the passive response of avoiding taxes by choosing not to earn to full capacity. The toll in manpower alone is impressive. . . . Since government must have revenues, and compliance with tax laws of any kind will involve bookkeeping and other administration, some drain of human resources in the process is inevitable. But the degree to which present taxation forces the defensive deployment of time and talent represents a deplorable waste.

The Morgan Guaranty Survey, November 1962

be considered as general receipts in the year of acquisition.

The third issue: what should be the first step in implementation of the constant dollar approach? Assuming that most legislators will decide that an indexed tax plan, as outlined in this paper, would not reflect their vested interests, the citizens can still take steps to effect some of these proposals. The obvious: elect better representatives. The less obvious: in states, enjoying a system of direct legislation, enact a measure to tax only real income by means of the initiative process. Once such a measure is enacted by the people, the government will learn to live within its means. The state example or examples will demonstrate the soundness of fair and credible tax policies and, hopefully, will induce the federal government, through its elected representatives, to follow suit.

Despite the appeal and lucidity of a constant dollar approach, its defects impel that it be discarded in favor of a better plan. Human nature dictates that such a device tends to encrust inflation into the political system rather than defeat it, by ameliorating the patent evils of paper money. Like the insidious withholding tax, a constant dollar offset would render currency debasement relatively painless to all but the perceptive observer; thus, it would serve as an opiate to mask the real cancer of government run amok. In addition, there exists little chance that a fair constant dollar credit would be enacted and maintained by elected officials who benefit greatly from the social schemes induced and encouraged by inflated currency. Moreover, the system raises complexities which would defeat the desired end of eradicating obfuscation and creating a simple yet fair tax structure.

A Proposal: Proportional Gross Receipts Taxation

Review the elements necessary for a fair system of taxation: First, the law should raise the necessary revenue to fund only the legitimate purposes of government, the prevention of aggression and the settlement of insoluble disputes. It should not act as a tool for looting the citizenry nor should it constitute a device for implementing social policy such as the redistribution of income and the satiation of the ends of envy, greed, and covetousness under the facade of egalitarianism and entitlement. Second, it should operate to collect a fair and equal share of the legitimate costs of government from each benefiting citizen. Third, it should be simple to administer so as to save the time and energy now needlessly expended on compliance and enforcement.

Given the flawed nature of mankind, no perfect system emerges, yet one concept seems better qualified than all others to fulfill these appropriate ends: Each person should contribute a proportionate amount of his gross receipts each year from each and every source to defray the legitimate and limited functions of his government; the government should be circumscribed from acting beyond its limited authority and from spending or pledging funds in excess of its income. Mr. John Chamberlain has delineated the justification of a proportional theory of income taxation, a rationale which can be carried to its logical conclusion by applying the sound idea of proportional taxation to gross receipts:

> Under the proportional theory of tax equity, a rich man would pay more taxes than a poor man, naturally. But every dollar of assessed property value, or of income, or of spending, would be taxed in equal amount, at flat percentage rates. Dollars would be treated equally, no matter who owned them, or spent them. Thus the citizens would be accorded the "equal protection of the laws"—and their "privileges and immunities" would be equal, as provided for in the United States Constitution. Any other way of treating taxation was regarded as discriminatory, or as putting penalties on ability, ambition, and success.[13]

Under the proportional gross receipts tax system, every person, corporation, foundation, or other entity (save for governmental units) would pay a flat percentage (e.g., 1%) of its annual gross receipt of funds from every source. There should be no exceptions, limitations, exclusions, deductions, credits or exemptions, thereby greatly simplifying the whole tax preparation process. This plan system would produce sufficient revenue to support necessary governmental functions and would result in a great saving of creative energy now utilized in the regulatory and compliance process.

Comments on the Plan

Several aspects deserve comment, for the proposal does not lack flaws. First, why should all institutions be subject to tax? The answer: The tax will not be onerous because the rate will not be graduated; the burden of government should fall equally upon individuals *qua* individuals and upon individuals operating in concert as entities or aggregates because the latter enjoy the protections of a properly-restricted government. There exists no good reason to exclude hospitals, foundations, churches and the like from the payment of the cost necessary to solve disputes and to maintain order and safety; indeed, cogent arguments can be made that taxation will impel those institutions to operate on a more businesslike and sound basis.

Second, will the plan unduly restrict the state? I think not. While the actual income to the government from a 1% gross receipts tax is not clear,[14] preliminary studies demonstrate that such a rate should be ample to carry out the proper functions of government. No moral reason exists to permit the state to live beyond its means and to mortgage the future of its citizens, nor to allow it to carry out functions which ought better be left to the private endeavors of the citizenry if indeed they are worth doing at all.

Third, what constitutes gross receipts, and why not apply the tax to net receipts only? Gross receipts envisions all income of every kind and nature accumulated during the tax year: Wages and salaries, inheritances, gifts, prizes, scholarships, transfer payments, to name a few items. Simplicity demands no exclusions; exemptions breed special interest legislation and inherent unfairness.

Fourth, is it fair to tax proportionately so that a man earning $1,000,000 pays 1% or $10,000 in tax while a welfare recipient receiving $1,000 pays only $10 to the state? Probably not, but the concept is ever so much better than what now exists that some slight deviation from philosophical precision might be acceptable. A case can be made that each person and entity in a territory gains an equal value from the protection of his person and the establishment of order so that each ought to pay a flat rate, e.g., $100 a year, for government services.

The proportional gross receipts tax incorporates a progressive feature in that each person pays a flat percentage of his receipts, and the receipts by definition may vary. The Libertarian Party fell into an identical trap during the 1980 presidential campaign when it decried unfair taxation yet produced a plan which still incorporated some progressive features. In the end result, the proportional gross receipts tax is acceptable because the person or entity with greater receipts may have more at stake in material things and thus may require justice services more often or in greater intensity than one possessing lesser wealth.

Conclusion

No system designed by fallible individuals will produce perfection in this orderly world. However, much remains to be done in the restriction of the state to its proper functions and in the restraint upon untrammeled taxing and inflating powers. Adoption of the proportional gross receipts tax will mark a long step toward sanity and morality in the concept of sovereignty.

—FOOTNOTES—

[1]Foley, Ridgway K., Jr., "The Source of Sovereignty", 32 *Freeman* 167–175 (March 1982).

[2]Police power is discussed at length in Foley, Ridgway K., Jr., "Police Power: Sovereignty's Sledgehammer", 25 *Freeman* 677–687 (November 1975).

[3]See, e.g., Foley, Ridgway K., Jr., "Individual Liberty and the Rule of Law", *Freeman* 357–378 (June 1971) and 7 *Willamette Law Journal* 396–418 (December 1971), and "The Source of Sovereignty", *op.cit.* note. 1.

[4]See Ellis, Abraham, *The Social Security Fraud,* (Arlington House, New Rochelle, New York (1971) *passim.*

[5]Admittedly this conclusory statement does little justice to the subject of the root causes of inflation but it will suffice for the purposes of this article. The following works, among others, discuss the problems in great detail: Mises, Ludwig Von, *Human Action* (3rd revised edition, Henry Regnery Company, Chicago 1966) p. 780 et seq.; Rothbard, Murray N., *What Has Government Done to Our Money?,* 27 et seq.; Hoppe, Donald T., *How to Invest in Gold Stocks and Avoid the Pitfalls* (Arlington House, New Rochelle, New York, 1972) Part I.

[6]"Franz Pick's 'Crises Seminar': Gold and Silver and the Coming 'Upheaval'," *The Investing Professional* (June 1973) 56. Dr. Pick states that the last relatively inflation-free year was 1940 and the 1940 dollar is worth less than 10 cents today.

[7]A well written article which discusses the problem of the progressive income tax in detail is Chamberlain, John, "The Progressive Income Tax," IX *Essays on Liberty* 277-296 (1962).

[8]See, e.g., Hazlitt, Henry, "How to Achieve a Fair Tax Structure," *Human Events* (March 17, 1973) 9–10.

[9]See Note 6, *op. cit.*

[10]Indeed, a modified indexing proposal appears in the Economic Recovery Tax Act of 1981 although, at this writing, the National politicians are reconsidering the wisdom of this norm.

[11]If anyone doubts that only the United States government can flood the marketplace with fiat currency, let him print his own dollars and try to use them. Rather severe penalties attach to such conduct.

[12]See Note 6, *op. cit.* Actually, debasement and inflation far antedate the history of the United States. See, e.g., Hoppe, Note 5, *op. cit.*

[13]Chamberlain, *op. cit.*, Note 7, page 281.

[14]Government records are not available to make the exact determinations necessary for a precise answer. State records have been studied in the years 1973–1976 which demonstrate that 1% may yield much more return than necessary to fund state functions in Oregon.

Clarence B. Carson

THE RELICS OF INTERVENTION:

Conclusion

6. The Relic of an Idea

MANY interventions which have been embodied in programs that go back at least to the early twentieth century are still with us as relics in 1982. Some even go back to the nineteenth century, to a period not covered by this series. For example, the Interstate Commerce Commission, which was authorized to regulate the railroads, was set up in the 1880s. Today, it is a relic not only of regulatory zeal but also of a time when the railroads were the dominant mode of land transportation. But the most heady intervention has come in the twentieth century, and some of it going back to the early years of the century is still very much with us. The Federal Reserve system, which antedates World War I, was supposed to regulate the money supply, and it is still busily trying to do that. The graduated income tax, which dates from the same period, is still being used to penalize profit making and other earnings, a habit formed during World War I.

A few interventions have been permitted to expire. For example, The Works Progress Administration and the Civilian Conservation Corps, relief programs of the New Deal, were abandoned and have never since been revived.

Mostly, though, interventions once undertaken have been continued in one form or another. Some, such as government-subsidized low-income housing, go through various permutations as enthusiasm for them waxes and wanes. Even crop subsidies and parity programs are still going on. Meanwhile, new interventions, such as environmental protection and urban renewal, have had their days when they occupied the center of the

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stage. However dramatic the failures of intervention, hope seems to spring eternal in the breast of the interventionists that some new twist or turn, some modification of the mechanism of intervention, some new wrinkle, will bring success.

The Basic Idea

Ultimately, though, all these particular programs of intervention, even all those that survive today as relics, are less important than something else. All these relics are but the progeny of another more enduring and persistent relic. It is, so to speak, the relic of relics. However thoroughly particular programs may be discredited, however great the failure of some government intervention, however disastrous some government effort, the bent to intervention continues unabated. Intervention is like the mythical hydra-headed serpent of ancient lore. It had nine heads. Chop off one of its heads, and two would come back in its place. There is one difference, however: what provides the animus for the hydra-like intervention is an idea. The relic that sustains all the other relics of intervention is the idea behind government intervention itself.

The idea behind intervention embraces the concept of an active role for government in society, and especially in the economy. That is, government should play an active role in shaping society and in directing the economy. While such a conception was not original with reformers of the nineteenth and twentieth centuries, it did depart from the basic tradition for the ~~role~~ of government in America.

Herbert Hoover suggested on several occasions that a good analogy for grasping the traditional American conception was that of an umpire in baseball. Though this analogy has some pitfalls that might well be avoided, it can be illuminating when used carefully. The umpire is not supposed to participate in the game. His task is to enforce the rules. He is expected to be impartial in his rulings and not take sides between the teams. It is not his job to see that the game is close. He does not distribute or redistribute the players to see that the teams are even in strength. The umpire is there to settle disputes which arise, not to alter the course of the game by intruding himself into it. In that sense, his role is similar to the traditional role of government.

But a baseball game is a contrived situation. Its rules are conceived to make a contest of the game. In these things, it is not parallel to life, society, or economy. Moreover, the umpire looms much larger in a baseball game than Americans have generally conceived it would be desirable for government to do in their lives. The umpire is supposed to have all the players under surveillance during the whole course of the game. Such government surveillance would amount to tyranny. Moreover, in most cases, players have no role either in bringing the umpire into the decision-making role or in arriving at their own settlements without him. The traditional role of government in America is not at all like that.

Keeping the Peace

The primary role of government is to maintain the peace. It is activated when there is aggression, when one of the parties to a dispute calls upon it, or when life, liberty, or property are endangered. Except when fraud, violence, or disputes come to its attention, it remains passive. This is no doubt a somewhat idealized version of even the American tradition, but it is in basic accord with it.

By contrast, interventionists are moved by the conception of an active role for government, as I said. They see it as an active participant in the game, as it were, as continuously imposing its version of what ought to be, as reordering society and the economy. This active role for government is apparent in the following quotations from interventionists:

In 1910, Theodore Roosevelt said: "I believe that in every part of our complicated social fabric there must be either national or state control."

In 1912, Woodrow Wilson said: "But we are coming now to realize . . . that the law has to step in and create new conditions under which we may live."

General Hugh Johnson, head of the National Recovery Administration, declared: "The very heart of the New Deal is the principle of concerted action in industry and agriculture under government supervision looking to a balanced economy."

President Roosevelt announced in 1933 that "We had a bad banking situation. . . . It was the Government's job to straighten out this situation and do it as quickly as possible."

In 1954, Arthur F. Burns, President Eisenhower's Chairman of the Council of Economic Advisers, stated that "it is no longer a matter of serious controversy whether the Government should play a positive role in helping to maintain a high level of economic activity. What we debate nowadays is not the need for controlling business cycles, but rather the nature of governmental action, its timing and its extent." These statements affirm the belief in an active role for government, but they do not explain why.

Government action is the method; the why of intervention lies deeper. From one angle, thinkers became convinced of the necessity for government intervention because they lost confidence, or faith, in a natural order and in the social order which takes shape when men are free. From another angle, it is equally correct to say that many thinkers in the nineteenth century came to believe that the traditional order in society is unjust and that there are no natural laws working to produce order. Although there may be some ambiguity in the statement of it, Franklin D. Roosevelt laid hold of the crux of the changed outlook in these two sentences read to the Democratic Convention in 1932: "We must lay hold of the fact that economic laws are not made by nature. They are made by human beings." That is a way of saying, I think, that the only law is positive law, that the only laws are those promulgated by government. And, the only order that there can be is an order imposed by government. The point is nailed down by the next sentence, in which he declared that "the Federal Government will assume bold leadership. . . ."

Laws of Historical Development

These views were the culmination of a century-long social and economic analysis which preceded them. While it would not be practical to go into this in detail here, the conclusions toward which this analysis moved need at least to be pointed out. As many intellectuals rejected or abandoned the belief in a system of natural law-natural order they replaced it with a quest for the laws of historical development. They shifted their attention from the enduring order, if you will, to the laws of change and development. Economies, looked at in this way, tended to be viewed as particular developments, or the results of institutions at some stage of historical development.

At any rate, thinkers began to discern flaws in particular economies. Indeed, some discerned rather large flaws which, if allowed to go on unchanged, would produce catastrophic results. Karl Marx and Friedrich Engels were at the forefront, of course, of such analysts. Bourgeois arrangements, as they described them, led to the impoverishment of the proletariat, the concentration of wealth, monopoly, periodic depressions, and eventual revolution. Many other thinkers who did not share with Marx and Engels this apocalyptic vision for the future nonetheless described flaws and injustices in the working of the prevailing economic systems. By the end of the nineteenth century, many thinkers had come to the conclusion, from whatever premises, that government must intervene in economies and in societies in general in order to make justice prevail.

What made these interpretations plausible, so far as they were, were two ideas or ideals shared by such intellectuals, ideas which were usually implicit when they were not explicit. They were the belief in "social" justice and substantive equality. I say "social" justice because otherwise the phrase might be taken to mean something different from what it does. From time immemorial, justice has had to do with individuals getting their due. It was not called "individual" justice; it was called justice. Undoubtedly, there were senses, too, in which such justice was social, since it involved others quite often and involved means made available in society for attaining it. But it was not referred to as social justice.

"Social" Justice and Substantive Equality

"Social" justice is a class-oriented or collectivist concept. It refers to justice for some class, order, or group of people, such as "labor," "the working class," women, low income groups, ethnic minorities, or what have you. Such a concept makes a kind of sense if you start with, say, Marx's Labor Theory of Value. Marx held that all value was imparted to goods by "labor." It followed then, that labor should have the income from the sale of goods, and, if it did not, the system of division of the proceeds was unjust. Of course, Marx's theory of value is nowhere conscientiously applied in an economy, nor could it be but for the briefest span of time. I cite it only to illustrate the fact that the idea of "social" has no built-in means of determining what is just. Justice for individuals is defined in terms of what is just, but justice for groups, if it is to have any meaning, must come from outside the concept.

The supplementary idea to which interventionists on behalf of "social" justice usually appeal is substantive equality. This, too, is basically a class or group concept. That is, it does not mean that each individual receives the same pay, income, and perquisites, or whatever, as every other individual. Rather, it tends to be interpreted to mean that all those of the same category, the same rank, the same education and experience, who do comparable work, and so on, should be paid the same. This concept of class or group equality is often modified or supplemented by such phrases as the "right to a decent wage" or "living income" for all groups and peoples. For example, notice the language in which President Roosevelt enunciated his "Economic Bill of Rights" in his annual message to Congress in 1944. He said, in part:

> In our day these economic truths have become accepted as self-evident. . . .
>
> Among these are:
>
> The right to a useful and remunerative job in the industries or shops or farms or mines of the nation;
>
> The right to earn enough to provide adequate food and clothing and recreation;

> The right of every farmer to raise and sell his products at a return which will give him and his family a decent living . . .;
>
> The right of every family to a decent home;
>
> The right to adequate medical care and the opportunity to achieve and enjoy good health. . . .

The class concept is there in his references to farmers, industrial workers, and business. The ideal of substantive equality is muted but present in such phrases as "the right to a decent home." Nor did Roosevelt leave in doubt his belief that to secure these rights would require government intervention. He said, "I ask the Congress to explore the means for implementing this economic Bill of Rights—for it is definitely the responsibility of the Congress so to do."

The Call for Intervention

The idea, then, which undergirds government intervention in the economy and society is this: That government must actively intervene in the economy to balance it and in society to bring justice; that government must continuously intervene else the disorders to which these are prone will reassert themselves; that the purpose for intervention is to provide "social" justice and substantive equality for classes, orders, and groups of people.

While this series has focused on intervention by government in the domestic economy, it has become increasingly clear since World War II that the penchant for intervention has many other dimensions. Even the extent of economic intervention was somewhat obscured in the 1930s by the depression framework of so much of the new government activity. So much legislation was passed as emergency and recovery measures that it was hardly clear what was to be more or less permanent and what temporary. It turned out, however, that about the only things temporary were acts ruled unconstitutional and the length of time that the money from particular appropriations lasted. By and large, then, economic intervention survived the depression and has been expanded over the years. But intervention has expanded far beyond the domestic economy.

International Intervention

It has become commonplace for the United States to intervene in various countries and conflicts around the world since World War II. The United Nations, located in and sponsored by the United States, was to have been the supreme instrument for collectivist intervention. From the beginning almost, however, UN interventionist efforts were usually stymied by Soviet vetoes. In consequence, Americans have usually intervened on their own or in concert with such other nations as would join them. Foreign Aid was the device most widely used to accomplish the intervention.

It may be objected that American intervention has usually been with the consent, and often by the invitation or request, of the governments of the countries. Granted, but that does not keep it from being intervention. Indeed, this only made it dual or multiple government intervention. The home government intervened in the lives of its own people with the help of the United States. It did so in myriad ways: by planning economic development, by augmenting its military power (and hence potential control over its people), by building public service facilities, and so on.

The underlying idea for intervention in other countries was roughly the same as for domestic intervention. It was to protect the weak from the strong, to redistribute wealth, to plan economies, and to establish, or move in the direction of, international "social" justice and substantive equality. Until all this has been done, things are conceived as being dangerously out of kilter. The thrust of communism gave added impetus to the intervention, of course. Just as some historians will have it that the New Deal programs circumvented domestic insurrection, perhaps even revolution, so it is alleged that the way to prevent communist revolutions is by interventions which support milder and more democratic socialism.

But domestic intervention in the United States has gone much beyond the economic intervention of earlier years since World War II. How far it has gone may be illustrated by an announcement on television recently. The announcer said that there is a Public Law which requires that schools provide physical education for the handicapped who attend them. It is highly doubtful that in his wildest flights of imagination Franklin D. Roosevelt would have supposed that the Federal government had the power to lay down any such rules. After all, the public schools are the creatures of the states. Neither the Constitution itself nor precedent provided any opening for such a Federal intervention. Above all, such intervention was remote from New Deal concerns. This is a way of saying that intervention which was initially advanced as a cure for pressing national problems has now been worked into every nook and cranny of American life.

Judicial Activism

One of the sources of this extension was what has come to be called judicial activism. More broadly, it can be viewed as an extension to the courts of the interventionist idea of government as an active and shaping force on the American economy and society. This judicial activism flowered under the leadership of Chief Justice Earl Warren in the 1950s and 1960s. In a series of landmark decisions, ranging from *Brown vs. Board of Education* to *Gideon vs. Wainright* to *Baker vs. Carr* the Supreme Court not only broke with precedent after precedent but also carved out an active role for the courts in reshaping America. No decision illustrates this more clearly than *Baker vs. Carr* (1962).

In *Baker vs. Carr,* and a string of Supreme Court decisions which followed it—*Wesberry vs. Sanders, Reynolds vs. Sims,* and *Wright vs. Rockefeller*—the Supreme Court claimed and asserted jurisdiction over states in the matter of apportionment and the determination of election districts. The principle which the Court elucidated was that each vote of each person should have as near equal weight as that of every other voter. No matter that this rule did not apply to the mode of selecting many of those in the Federal government, it was proclaimed as the operating principle for the states. Since that time, United States District Courts have occupied themselves with the superintending of state reapportionments so as to assure equality. That the discretionary powers of the states have been greatly reduced by these and numerous other Federal court interventions is undeniable.

By the mid-1960s, the Tenth Amendment to the Constitution had become virtually a dead letter. The Amendment reads, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." It was, and is, no longer clear what powers might not have been delegated to the United States, if the interpretation of recent courts be taken as the measure. Indeed, if my reading of the impact of these decisions is correct, the Tenth Amendment has been effectively reversed. This reversed reading would go something like this: "The powers not specifically reserved to the States or to the people are hereby delegated to the United States by the Constitution."

The Great Society

At any rate, by the early 1960s there was no longer any likelihood of court restraint of all sorts of interventionist measures which Presidents might propose and Congresses might dispose. After all, if Federal courts were vested with such extensive powers, they were unlikely to deny powers of Congress to exercise those along lines they approved. One other major event, or series of events, set the stage for the greatest surge of interventionist programs since the New Deal. That surge came during the presidency of Lyndon B. Johnson.

What set the stage for this surge

of intervention was the assassination of President John F. Kennedy in November of 1963. There was no predetermined reaction built into that event itself. But the handling of it by television prepared the way for heady government action. For several days after the assassination, all regular television programs were canceled, and the networks devoted themselves to John F. Kennedy, his assassination, his life, his aims, and so on. He was lionized, made a hero, a symbol, an embodiment of American youth and ideals. The frustration he had experienced in getting his legislative recommendations through Congress became a wrong to be righted, and President Johnson became an instrument, for a time, to right those wrongs.

This was especially so in Civil Rights legislation. Otherwise, the Kennedy assassination may have provided some of the impetus to Johnson's own War on Poverty and interventionist action which was supposed to lead to the Great Society. The following is not a complete list of the interventionist measures, nor was each of the measures entirely new, but it will give some idea of the scope of the intervention during the Johnson years.

Specific Measures Taken

In 1964, measures dealing with the following were passed: Inter-American Development Bank, Federal Airport Aid, Farm Program, Pesticide Controls, International Development Association, Civil Rights Act of 1964, Urban Mass Transit, Criminal Justice, Truth-in-Securities, Food Stamp, Housing Act, Interest Equalization, Wilderness Areas, Nurse Training, and Library Services.

But 1965 was an even better year for intervention. Fresh from a landslide victory over Goldwater and with comfortable margins for the Democrats in both houses of Congress, Johnson moved onward toward the Great Society with renewed vigor. Among the programs inaugurated (or newly funded) were Medicare, Aid to Education (first large scale Federal aid to elementary and high schools), Higher Education (inauguration of a general scholarship program for college students), Department of Housing and Urban Development created, Voting Rights, Heart, Cancer, Stroke Program, Law Enforcement Assistance, Mental Health Facilities, Vocational Rehabilitation, Arts and Humanities Foundation, Aid to Appalachia, Highway Beauty, Clean Air, Water Pollution Control, High Speed Transit, Manpower Training, Regional Development, Aid to Small Businesses, Water Desalting, Community Health Services, Juvenile Delinquency Control, and so on and on.

In the following years, there was Truth-in-Packaging, Teacher's Corps, Asian Development Bank, Air Pollution Control, Urban Fellowships, Safety at Sea Treaty, Fair Housing, Commodity Exchange Rules, U. S. Grain Standards, International Monetary Reform, Vocational Education, and what have you? If anything was not authorized, controlled, subsidized, regulated, intervened in, messed with, studied, had a commission appointed about it, offered assistance, or sustained during these years it was surely an error of the head and not of the heart.

An Established Habit

The habit of government intervention is now deeply imbedded in our outlook. If a problem is identified that involves more than two people it has become almost second nature to expect government to do something about it. The promises that promoted intervention have given rise to great expectations. A picture of government has been presented which would have it to be a concerned and almost loving organization, dispensing "human services," as the argot has it, and ready to meet all and sundry needs. It is a seductive notion. But those who believe it are doomed to disappointment when they come athwart actual government. The gap between expectations and reality constantly breeds surliness and cynicism, if I discern aright. Government could not meet all the expectations that have been aroused, and what it does falls far short usually of the hopes and longings of those who depend on it.

Here is an incident which may illustrate the point. Several years ago I broke my wrist. During the time when I was wearing the cast I had occasion to go to the bank to talk to an officer of the bank. He was busy when I arrived, so I sat down in a waiting alcove until he was free. The man next to me was black, and he undertook to engage me in conversation, or, more precisely, to share his complaints with me. He noted that my arm was in a cast and pointed out that he had broken a limb (I have forgotten which) at some time in the past. I had great difficulty understanding what he was saying, both because he spoke in spasmodic rhythms which my ears refused to sort into words and because, if my suspicions were well founded, he was nearly drunk. As well as I could make out, his complaint was that he did not receive as much government or other aid as he should have to help him get through his difficulties with a broken limb. He alleged that the reason for this was discrimination against Blacks. In order to substantiate this, or so I surmised, he wanted to know what sort of help I had received.

My irritation had got the better of me by that time, and I asked him, rather sharply, I think, what he wanted of me. My voice must have risen above the mandatory hush which prevails in banks at all times, for one of the bank personnel came forward to deal with the man. He asked him his business, told him the bank had nothing for him at that time, and led him away as gently as possible. Although I was in no mood to explain it, it happens that I had neither received, asked for, nor expected any government aid to help me through the trials of a broken arm. I have a private hospitalization and surgical policy which paid most of the medical costs. Otherwise, I managed as best I could, failing even to take advantage of the government's Bent Coathanger Program to enable those with fractures to scratch under casts when it itches.

The Disappointing Results

One of my reasons for telling this story is its man-bites-dog aspect. Many whites are convinced that Blacks are the prime beneficiaries of government welfare programs. By contrast, here was one black man, at least, apparently convinced that he had been short-changed in his quest for aid because of discrimination against Blacks. All he knew, I suspect, was that the government was spending a lot of money, providing a lot of aid, and he wasn't getting much of it. He was right, of course, on all counts. So are most of the others, of whatever race or color, who believe much the same.

Which brings me to my main point, namely, that government aid is disappointing and government intervention is a failure. Government aid must disappoint most who fasten their hopes upon it, because government resources are limited. However large the appropriations, the benefits are almost always a disappointing dribble when they have been distributed to all the recipients. Beyond that, when "social" justice is the animating purpose, help for individuals is secondary. It is classes and groups that are supposed to be benefited. Thus, benefits are arbitrarily distributed, and such help as any receive depends upon the category in which they fall.

Above all, though, government intervention is a failure. Governments cannot balance economies. They can only disrupt, distort, and unbalance them. They cannot intervene so as to provide a flexible money supply which will meet all needs. They can only provide a system in which the money supply is alternately expanded and contracted, causing booms and busts, among other things. Government intervention cannot provide parity for farmers, full employment for workers, solvency for shopkeepers, just prices for purchasers, and all the goodies that have been promised over the years. Government has no magic wand that it can wave to cure all the ills of a society. Even if government be vested with plenary powers so that it is inevitably tyrannical, it cannot do these things.

The Illusion Persists

Government intervention is a relic. It is a relic of the heated dreams of nineteenth century intellectuals who professed the notion that they could by taking thought build a just society. It is a relic of an unwarranted belief that government action was the cure for the ills of man. It is a relic of communist and fascist national planning. It is a relic of the discredited hopes of collectivists. Even before interventionists had gained full sway in America the idea was already producing its totalitarian fruit in Europe. It is a relic of the contradiction that by doing injustice and wrongs to individuals "social" justice can be achieved. It is a relic of a faith in an imposed substantive equality which can never have any more substance than a reflection in water. It is a relic today of politicians who know of no other way to get elected than to buy votes with our money, raising once again expectations by their promises which they cannot fulfill.

Nonetheless, the relics will survive, the programs will continue, and new ones will be conceived so long as the idea that gives rise to the interventions is believed. So long as people believe that governments must intervene to balance the economy, to impose equality, to bring "social" justice, to bring order out of disorder, we will continue to have such programs. In the final analysis, so long as so many continue to believe that when there is a problem or difficulty government must do something, intervention will continue apace.

Morals and the Welfare State

IDEAS ON LIBERTY

If one is free to have what he has produced and earned, it then follows that he also has the moral right to be free to choose his work. He should be free to choose his work, that is, so long as he does not violate the moral code in doing so by using in his productive efforts the property of another person through theft or trespass. Otherwise he is free to work as he will, at what he will, and to change his work when he will. Nobody has the moral right to force him to work when he does not choose to do so, or to force him to remain idle when he wishes to work, or to force him to work at a certain job when he wishes to work at some other available job. The belief of the master that his judgment is superior to that of the slave or vassal, and that control is "for his own good," is not a moral justification for the idea of the Welfare State.

F. A. HARPER

John Jefferson Davis

THE LESSONS OF HISTORY

"LENINGRAD can be overstocked with cross-country skis . . . and yet go several months without soap for washing dishes. I knew a Moscow family that spent a frantic month hunting for a child's potty while radios were a glut on the market."[1] These observations by Hedrick Smith, former Moscow Bureau Chief for the *New York Times,* highlight the persistent problems of a planned socialist economy.

We will be examining here the respective track records of the free market and socialist economic systems. Marx believed that history would demonstrate the inherent superiority of socialism. He predicted that capitalism would lead to the progressive impoverishment of the workers, and that the system itself would be destroyed by a succession of boom-and-bust cycles of increasing intensity.

Leon Trotsky, one of the key figures in the earlier phases of the Russian Revolution, had even more grandiose hopes for socialism. He believed that in a socialist society man would become ". . . incomparably stronger, wiser, finer. His body more harmonious, his movements more rhythmical, his voice more musical . . . The human average will rise to the level of an Aristotle, a Goethe, a Marx. Above these other heights new peaks will arise."

History has not been kind to the utopian hopes of Marx and Trotsky. The "New Socialist Man" is yet to appear, and, as we shall see, the historical record shows that capitalism has been far more effective than so-

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cialism in improving the lot of the common man.

We will also be examining some popular but mistaken notions about the track record of the free market system. Did not the "Robber Barons" of the nineteenth century demonstrate that industrial capitalism is a predatory and oppressive system? Did not the Great Depression demonstrate once and for all the inherent instability of the free market? We will attempt to show here that the common perception on both these questions is mistaken, and only serves to obscure the real merits of the free market approach.

The Longer View

Without an adequate knowledge of the past it is easy to lose sight of the fact that the material abundance produced by industrial capitalism is a very recent phenomenon in human history. Poverty has been the usual lot of mankind for most of recorded history. The concept of a steadily growing economy was virtually unknown in ancient times. Growth rates through most of human history have been very low, zero, or negative. Pre-industrial societies were caught in a Malthusian trap of slow growth, increasing population, outstripping of food supplies, and demographic disaster.

As the British historian Paul Johnson has pointed out, prior to the eighteenth century, "it was rare for even the most advanced economies, those of England and Holland, to achieve one per cent growth in any year."[2] Beginning in the 1780s, England achieved a then-unprecedented annual growth rate of two per cent. By the end of the decade a rate of four per cent had been attained—a rate which was to be sustained for the next 50 years.

During the nineteenth century Britain increased the size of its workforce by 400 per cent. Real wages doubled during the period 1800–1850, and doubled again from 1850–1900. "This meant," notes Johnson, "there was a 1600 per cent increase in the production and consumption of wagegoods during the century. Nothing like this had happened anywhere before in the whole of history."[3] After 1850, even higher rates of growth were being attained in Belgium, France, Austria-Hungary, Germany, and the United States. Marx's prediction that industrial capitalism would progressively impoverish the workers was falsified by the facts of history.

Technological and Intellectual

What produced this great "lift off" in the Western nations? The experience of England, the pioneer in the new industrial revolution, is quite instructive. The sources of the dramatic progress were both technological and intellectual. Harnessing the new energy of coal and steam lifted

English society to a new plateau of productivity far higher than the old economy based on the muscle of horse and man.

The new ideas of Adam Smith exploded the old mercantilist notions which measured the nation's wealth by stocks of silver and gold amassed through plunder and the cumbersome operations of a centrally controlled economy. Adam Smith's *Wealth of Nations* portrayed a vision of a society in which the initiative, energy, and imagination of countless enterprising individuals would produce a more abundant society for all. The Protestant Reformation, and later the Wesleyan revival, reinforced the biblical values of work, thrift, and personal responsibility, and thus helped create a moral climate which contributed to economic progress.

"In short," writes Paul Johnson reviewing the trend of events, "after nearly five recorded millennia of floundering about, in relative or absolute poverty, humanity suddenly in the 1780's began to hit on the right formula: industrial capitalism."[4] And the progress was indeed dramatic. During the 1780s, 80 per cent of the people of France were spending 90 per cent of their income on bread, merely to stay alive. Today France has more automobiles per capita even than Germany, and more second homes than any other European country. It is important to keep facts such as these in mind as we examine some particular issues relating to the nineteenth century experience.

"Robber Barons" and "Dark, Satanic Mills"

Despite the impressive historical evidence for dramatic economic progress in Western society during the last several centuries, there is the widespread belief in the popular mind that capitalism produced enormous degradation, impoverishment, and oppression for the common man. This view can be found in novels, textbooks, newspapers, and television and radio productions today. How did it arise? Curiously enough, this view was spread not only by Karl Marx and his followers, but also by countless nineteenth century social reformers, educators, writers, and clergymen who had no particular sympathy for the doctrines of Marx. One can recall the lurid descriptions of the factory system in the novels of Charles Dickens, and the English poet William Blake's characterization of these factories as "dark, satanic mills."

The English industrial revolution had not only improved the living conditions of the masses, but also produced a fundamental alteration in society's perception of poverty. Since poverty no longer appeared to be the inevitable lot of mankind, instances of it seemed all the more to call for vigorous reform. Industrial capitalism produced a "revolution of rising expectations," and its very success provoked an outpouring of criticism. A social conscience quickened by the evangelical revivals of the nineteenth century was made more sensitive to such criticisms.

But were the English factories really "dark, satanic mills"? There is no question that conditions in many of the factories were far from ideal, but careful historical research has exploded the myth that the system led to the progressive impoverishment of the workers. Exactly the opposite was the case. Economic historians W. H. Hutt and T. S. Ashton have demonstrated that while there were some areas of unevenness, the general trend for English workers in the nineteenth century was one of improving standards of living. Real wages were increasing; the price of textiles fell, increasing the availability of clothing; after 1820, the price of consumer items such as tea, coffee, and sugar fell substantially. Ashton concludes that "the number of those who were able to share in the benefits of economic progress was larger than the number of those who were shut out from those benefits."[5] Countless thousands of English men and women *voluntarily* left the farms in order to work in the factories, believing that the new system offered greater opportunities for economic betterment. And more often than not, those hopes were realized.

In 1837 or 1838, Thomas Holmes, aged 87, gave to a member of the Liverpool Statistical Society his recollections of the changes in English society during his lifetime. "There has been a very great increase in the consumption of meat, wheaten bread, poultry, tea and sugar," he said. "The poorest are not so well fed. But they are better clothed, lodged and provided with furniture, better taken care of in sickness and misfortune. So they are gainers. This, I think, is a plain statement of the whole case."[6]

Robber Barons

It is a commonly held belief that nineteenth century America was the age of the "robber barons." John D. Rockefeller, Cornelius Vanderbilt, Leland Stanford, and other predatory capitalists were milking the country dry with their rapacious, dog-eat-dog form of economic warfare. This is the picture presented in Matthew Josephson's influential 1934 book, *The Robber Barons*. According to Josephson, the capitalistic system was the problem, and government intervention was the solution. In spite of Josephson's claims, however, a closer examination of the record discloses that the real culprit was not the *free market* system as such, but *government intervention* on behalf of privileged business interests.

A good case in point is provided by the "Credit Mobilier" scandal of the 1860s. The Credit Mobilier was a "construction" company directed by those who had controlling interests in the Union Pacific Railroad. Through their political influence Congress passed the Pacific Railroad bill in 1862, granting the Union Pacific Railroad 12,000,000 acres of land and $27,000,000 in six per cent, thirty-year government bonds as a first mortgage, and 9,000,000 acres of land and $24,000,000 in government bonds to the Central Pacific Railroad. The project was to establish rail connections between Omaha, Nebraska and the Great Salt Lake.

Financial interests in the Union Pacific Railroad used the Credit Mobilier to subcontract the construction work to themselves, and when construction costs mysteriously skyrocketed, the profits reaped by the Credit Mobilier were enormous. When the swindle became known, the public outcry against "laissez faire capitalism" was immediate. But as Susan L. Brown and other authors in *The Incredible Bread Machine* have pointed out, capitalism was being blamed unfairly. The promoters of the Credit Mobilier raised their capital not by private investment but by government subsidy—by "subsidies, franchises, land grants and associated government involvements which are not characteristic of laissez faire capitalism."[7] The Credit Mobilier was not a true example of the free market, but of its perversion through the use of government power for the sake of special privilege. In this case "big business" was reaping profits not through fair competition on the open market, but through manipulating the political system for its own ends.

John D. Rockefeller's Standard Oil Company is frequently cited as the prime example of the evils of monopoly capitalism in the nineteenth century. According to the authors of one popular college text, "Rockefeller was a ruthless operator who did not hesitate to crush his competitors by harsh and unfair methods."

Rockefeller's Efficiency

As economist Lawrence W. Reed has pointed out, such charges present a distorted picture of the reasons for Rockefeller's financial success. According to Reed, Rockefeller's profits stemmed not from a *coercive* monopoly produced by government grants of exclusive privilege, but from an *efficiency* monopoly—a concentration of the market produced by a company's excellence in satisfying its customers. Even Ida Tarbell, one of Rockefeller's most persistent critics, admired the efficiency of his operations. Tarbell, describing one of Standard Oil's refineries, admitted that it was "a marvellous example of economy, not only in materials, but in time and in footsteps." Economic historian D. T. Armentano has pointed out that between 1870 and

1885 Standard Oil reduced its refining costs for kerosene from 3 cents per gallon to less than .5 cents per gallon. "Clearly," notes Armentano, "the firm was relatively efficient, and its efficiency was being translated to the consumer in the form of lower prices for a much improved product, and to the firm in the form of additional profits."[8]

Did Standard Oil ruthlessly drive out its competitors through predatory price cutting? Reed cites the conclusion of historian Gabriel Kolko: "Standard attained its control of the refinery business primarily by mergers, not price wars, and most refinery owners were anxious to sell out to it. Some of these refinery owners later reopened new plants after selling to Standard."

Unlike the Credit Mobilier, John D. Rockefeller's profits did not derive from special subsidies and privileges granted by the government. While it was certainly the case that Rockefeller wanted to make money, a fair reading of the facts discloses that he succeeded in doing so by the socially beneficial mechanism of the free market—by efficiently producing a quality product that the public really wanted to buy.

The Great Depression

More than any other event in the twentieth century, the Great Depression succeeded in convincing a generation of Americans that the free market system, left to itself, simply could not work. The social impact of this event was enormous. Some 12 million Americans were unemployed; some 5,000 banks and 86,000 businesses failed; in 1932 alone, 273,000 families were evicted from their homes. Despair and a sense of helplessness gripped the country. People knocked on doors for handouts, and some even fought over leftovers in the alleys behind restaurants. The journalist Saul Pett expressed the common view of the matter in his observation that the Depression was "the watershed, the great turn in history in which laissez-faire died and the basic philosophy of American government was profoundly altered."[9] Only the resources of the federal government, so it seemed, could rescue the nation from the wreckage of the free enterprise system.

But was this really the case? Recent economic research has been questioning this common view, and presenting facts which show that government intervention was more a cause than a cure of the nation's economic crisis. A good measure of the blame must be laid at the feet of the Federal Reserve System, which presided over a reckless expansion of credit during the years 1924–1929. Professor Hans Sennholz, a noted conservative economist, has argued that this credit expansion made the crash of 1929 inevitable. "Inflation and credit expansion always precipitate business maladjustments and malinvestments that must later be liquidated," he writes.[10] Even after the monetary collapse began, the Federal Reserve did not take responsible countermeasures. According to Prof. Milton Friedman, the evidence is now quite conclusive that "the System not only had a legislative mandate to prevent the monetary collapse, but could have done so if it had wisely used the powers that had been granted to it in the Federal Reserve Act."[11]

The Lesson of 1929

The Smoot-Hawley Tariff Act of 1930 represented another misguided government intervention which only served to deepen the economic crisis. By raising U.S. tariffs to record levels, this action virtually closed our borders to foreign goods, provoked retaliatory tariffs on American products, and contributed to unemployment at home and abroad. Sennholz points out that U.S. exports dropped dramatically from $5.5 billion in 1929 to $1.7 billion in 1932.

The federal government compounded the nation's economic woes with the Revenue Act of 1932, doubling the federal income tax burden. This sharpest tax increase in the nation's history designed to "soak the rich," contributed greatly to the downward spiral. "This blow alone," notes Sennholz, "would bring any economy to its knees, and shatters the silly contention that the Great Depression was a consequence of economic freedom."

Franklin D. Roosevelt's "New Deal" received the lion's share of credit for lifting the country out of the Depression, but it was really due to circumstances beyond government's control—the beginning of the Second World War—that the nation's unemployment problems were solved. The real lesson of 1929 is not that the free market system can't work, but that misguided government interventions in the market can produce far more damage than they propose to cure.

The Recent Past

Karl Marx expected industrial capitalism to produce increasing impoverishment of the workers, and finally to destroy itself in a series of boom-and-bust cycles. History has demonstrated that Marx was wrong on both counts. As George Taber has noted, "Rather than pushing workers deeper into poverty . . . capitalism has lifted the vast majority of laborers into the middle class."[12] Workers in free market economies have far more influence on management's decisions than their counterparts in Marxist societies.

Capitalism has weathered some severe fluctuations in the business cycle—the worst being the Great

Depression—but the predictions of its demise have turned out to be premature. Even its critics have been forced to admit its staying power as an economic system. Writes Robert Heilbroner, a left-leaning economist and persistent critic, "History has shown capitalism to be an extraordinarily resilient, persisting and tenacious system, perhaps because its driving force is dispersed among so much of its population rather than concentrated solely in a governing elite."[13]

In the Soviet Union, the inherent problems of a centrally planned economy have become increasingly evident during recent years. After dramatic productivity gains from initially low bases in the 1950s and 1960s, economic growth in Russia dropped to two per cent in 1979, the lowest since the 1930s.

Lagging farm productivity has long been a weak spot in the Soviet system. In 1930 the peasants revolted against Stalin's forced collectivization and confiscation of their land and livestock. The subsequent famine was one of the worst in history, costing an estimated two to five million lives.

Problems with the collective farms have persisted down to the present day. In 1980 Soviet planners set a goal of 235 million tons of grain, but the actual harvest was only 189.2 million tons, according to official figures. Socialist Russia on many occasions has had to depend on the capitalist economies of the United States and Canada to provide bread for its own people. Late in 1981, facing another poor grain harvest, Soviet authorities mounted a public relations compaign designed to convince Russian housewives of the virtues of cooking with stale bread. "You will be rewarded by delicious, unusual dishes," an official government leaflet promised.[14]

The system of forced collective farming has not succeeded in extinguishing the spirit of free enterprise in the hearts of the Russian people. Privately farmed plots in Russia, averaging less than an acre in size, represent only three per cent of Soviet farmland, and yet produce an astonishing one-fourth of all Russian farm products.[15] The "New Soviet Man," when left on his own, can be as energetic and productive as his American counterpart.

Persistent Shortages

The chronic inefficiency of a centrally planned economy shows itself in persistent shortages of consumer goods in the retail stores. Towels, toothpaste, axes, locks, vacuum cleaners, irons, kitchen china, cameras, or cars—the list is virtually endless. Soviet women are accustomed to spending two hours in line, seven days a week, in hopes of finding the items they want. "I have known of people who stood in line ninety minutes to buy four pineapples," writes former Moscow correspondent Hedrick Smith, "and three and a half hours to buy large heads of cabbage, only to find the cabbages were gone as they approached the front of the line."[16] Bribery of clerks is a common way of trying to obtain retail items in short supply.

The political unrest in Poland and the rise of the independent labor union Solidarity has made the West much more aware of the economic problems in that socialist society. The frustrations of the ordinary Polish citizen express the crisis of the system in a very personal way. "I do not even want to talk about food supplies," said one elderly man on a shopping trip. "There is nothing to buy, beginning with milk and ending in detergents. You have to have plenty of time or very good connections, but they do not even work anymore."[17]

Concern over a possible Russian invasion and maneuvers by Soviet troops on Poland's borders during 1981 were often overshadowed by a preoccupation with food shortages. "Maneuvers? Yes, I'm making maneuvers—trying to get some ham for me and my daughter," commented Iadwiga Glowacka, a Warsaw technician standing in a meat shop line.[18]

A Christian minister from the United States was visiting in Gorzow, Poland during the summer of 1981. The hostess prepared a generous Polish meal, even borrowing sausage from a neighbor. But at the table she broke down and cried, "Forty years after the war, and this is all we have." The Polish people are not starving, but staples are scarce, and meat is "all going to feed the Red Army," as one person at the table said.[19]

Crisis in Cuba

In our own hemisphere, the Cuban economy is a prime example of the failures of a socialist system. Prior to Castro's revolution Cuba was fourth among Latin American nations in per capita GNP; now it is 14th, with one-third the rate of Puerto Rico. Rationing, inefficiency, and waste characterize the system. Milk, fruit, and vegetables are in short supply, and rice is rationed at five pounds per person per month. The Cuban economy is being kept afloat by massive Soviet aid, to the tune of $3 billion a year, or $8 million a day. Castro's socialist revolution failed to deliver the equality and abundance that it promised. "Cuba today is a totalitarian society in which nearly every form of dissent is severely punished," writes John W. Cooper, a researcher for the American Enterprise Institute in Washington. "Castro and his ideology not only supress the self-determination and freedom of conscience of the Cuban people; they have also created a stagnant economy with perpetual shortages, which is completely dependent on a foreign power, the Soviet Union."[20]

In socialist states of Asia the spirit of free enterprise persists. A recent television newscast from Vietnam showed bare state-controlled food markets in Hanoi. The private street markets had plenty of food, and Vietnamese communist leaders have admitted they need Western help for economic development. In China, nearly 5,000 older entrepreneurs from an older generation have been given new jobs as factory managers and advisers. Hu Qiamu, director of the Chinese Academy of Social Sciences, has admitted that China has had to adopt such free market principles as "the pricing system, the rule of value, and the advantage of material incentives."[21]

Asian states such as Japan, South Korea, Taiwan, Singapore, and Hong Kong, which have given free rein to free market principles, have surged far ahead of their socialist competitors. George Taber notes that the economy of Hong Kong grew at a phenomenal 12.75 per cent annual rate during four recent years, increasing per capita real income by 25 per cent. During the last twenty years the economy of Singapore has increased fivefold, giving its people a standard of living second in Asia only to Japan. So many new jobs have been created by Singapore's free market economy, notes David Reed, that the residents shun menial work, "and reportedly some 100,000 'guest workers' had to be recruited from Malaysia for this purpose."[22]

Capitalism Produces

The record of history, then, seems clear. In the competition between capitalism and socialism to provide both individual freedom and material abundance, capitalism wins hands down. Even its critics have admitted the free market's ability to produce and have reluctantly adopted some of its principles. The free enterprise system is consistent with biblical teachings concerning the rights and dignity of the individual, and heeds biblical warnings about the dangers of concentrating power in the hands of the state. "By limiting the state," argues theologian Michael Novak, "democratic capitalism liberates the energies of individuals and whole communities." Greater abundance for all is the result.

The free market has its imperfections and failings, to be sure, but history shows that those of its competitors are far worse. George Taber is surely correct in his assessment: "For all its obvious blemishes and needed reforms, capitalism alone holds out the most creative and dynamic force that any civilization has ever discovered: the power of the free, ambitious individual."[23] When the dynamism of a society of free individuals is tempered and permeated by biblical values, the resulting system would appear to be the best one attainable by imperfect individuals still living under the conditions of history.

—FOOTNOTES—

[1]Hedrick Smith, *The Russians* (New York, 1976), p. 60.

[2]Paul Johnson, "Has Capitalism a Future?" *The Freeman,* January 1979, p. 48.

[3]*Ibid.*

[4]*Ibid., p. 49.*

[5]F. A. Hayek, ed., *Capitalism and the Historians* (Chicago, 1954), p. 159.

[6]*Ibid.,* p. 158, n. 26.

[7]Susan L. Brown, *et al., The Incredible Bread Machine* (San Diego, 1974), p. 13.

[8]Lawrence W. Reed, "Witch-Hunting for Robber Barons," *The Freeman,* March 1980, p. 169.

[9]*Macon Telegraph and News,* June 17, 1981, p. 1.

[10]Hans F. Sennholz, "The Great Depression," *The Freeman,* April 1975, p. 206.

[11]Milton and Rose Friedman, *Free to Choose* (New York, 1979), p. 85.

[12]George Taber, "Capitalism: Is It Working?" *Time,* April 21, 1980, p. 55.

[13]*Ibid.,* p. 45.

[14]*Macon Telegraph and News,* September 13, 1981, p. 11a.

[15]Shawn Tully, "Mapping the 'Second Economy,'" *Fortune,* June 29, 1981, p. 40.

[16]Smith, *op. cit.,* p. 64.

[17]*Boston Globe,* March 2, 1981, p. 3.

[18]*Macon Telegraph and News,* September 13, 1981, p. 14a.

[19]Professor Gordon Fee, personal communication, 1981.

[20]John W. Cooper, "The Cuban Revolution," *Christianity and Crisis,* July 21, 1980, p. 203.

[21]*Time,* April 21, 1980, p. 53.

[22]David Reed, "Singapore: Jewel of Prosperity," *Reader's Digest,* November 1979, p. 226.

[23]Taber, *op. cit.,* p. 55.

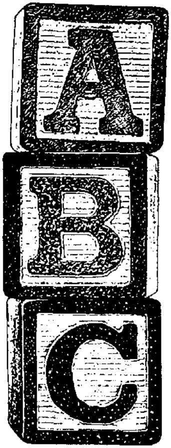
The American Concept

IDEAS ON LIBERTY

The American concept of government did not spring into being full blown from a few brains; it was hammered out in the course of long experience and debate. By the middle of the eighteenth century Americans were protesting that the exactions of the British crown were violating their rights as men, whereas but a generation earlier they had demanded their rights as Englishmen. A revolution in thought and outlook separates the former concept from the latter. In drawing the lines of battle on their rights as Englishmen, the colonists had in mind the concessions which their ancestors, beginning with the barons at Runnymede, had wrung from their sovereigns. In standing on their rights as men, the colonists drew upon another dimension, the theological. This is probably what de Tocqueville had in mind in 1835 when he wrote of Americans that "religion . . . is the first of their political institutions."

EDMUND A. OPITZ, "Capitalism and Our Culture"

John K. Williams



THE END OF SCHOOLING

FEW people in western democracies are happy with their state-school systems.

Teachers are unhappy, believing that they are not appreciated by the community and are puppets controlled by failed teachers who have engineered an escape into the protected, bureaucratic worlds of administration, curriculum development, and educational research. Parents are unhappy, lamenting their children's lack of basic skills and tired of helping their offspring prepare countless "projects" about dinosaurs or the environment. Employers are unhappy, having failed to exorcise a strange desire for secretaries who can spell and office-workers who, communing with their calculators to determine the product of 30 and 20, sense that an answer of 1.5 might suggest that the wrong button has been pressed. Academics are unhappy, asserting that first-year college students are barely able to produce coherent essays.

Educationalists are not slow to proffer excuses for such a state of affairs. Schools, it is pointed out, are expected to solve nearly all social ills, ranging from venereal disease to disrespect for the environment. Little school time remains for such trivia as reading, writing, or arithmetic.

Maybe. Nonetheless, the average Australian parent and taxpayer had cause for concern when a massive research program carried out by the Australian Council for Educational Research discovered, among other disturbing facts, that 27% of 13,000 children tested could not, after at

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least six years of schooling, divide 56 by 7 and that 20% could not comprehend the simplest of newspaper stories. The Swedish people have witnessed the steady erosion of the Swedish University Entrance Certificate, which once almost guaranteed admission to any European university, to the point where it rarely satisfies the entrance requirements of such a university. A recent volume edited by Gerald Berbaum (*Schooling in Decline;* Macmillan, 1979) testifies to "widespread disillusionment about the effectiveness" of state-controlled, compulsory schooling in the U.K.

The U.S.A. tells a similar tale. There, such tests as the Iowa Tests for Basic Skills and the Scholastic Aptitude Test reveal that good student performance in the 1930s deteriorated sharply in the late 1940s, improved slightly in the decade 1953–1963, declined rapidly from 1964 until 1978, and showed a modest improvement in 1979–1980.

The massive overall decline is not confined to particular States, regions, or population groups; is not caused by an increasing number of students taking the tests (the "spread" of scores does not widen); and cannot be attributed to statistical random chance. An increased "drop out" rate cannot be postulated as the reason for the decline: the most able of students are registering declining scores; they also have declined at late elementary and junior high school grades where attendance is compulsory.

Unfortunately, debates on schooling tend to focus upon incidentals. "Progressive" methods of teaching are attacked or defended. Teachers are sometimes condemned for laziness and ineptitude, sometimes hailed as heroic souls attempting an impossible task devised by people who have, since their own schooldays, never been thrust into a classroom. Both a shortage and a glut of educational technology have been blamed by those troubled about schooling.

What is rarely discussed is the institution of compulsory, state-controlled schooling as such. It is widely agreed that this institution is the backbone of a civilized, democratic society. Yet a perusal of its history is disturbing.

Espoused by Martin Luther

Effectively, the case for such schooling was launched in the sixteenth century by Martin Luther. "I maintain," he wrote, "that the civil authorities are under obligation to compel the people to send their children to school. . . . If the government can compel such citizens as are fit for military service to bear spear and rifle, to mount ramparts, and perform other material duties in time of war, how much more has it the right to compel the people to send their children to school, because in this case we are warring with the devil, whose object it is secretly to exhaust our cities and principalities of their strong men."

Luther's argument is simple. He knows the truth: Satan is waging war against humanity. He knows that weapons are necessary for victory against Satan: an ability to read the Bible and an acceptance of Luther's theological views. Men and women holding views contrary to those of Luther and instructing, or supporting schools which instruct, their children in these views are corrupting their children and subverting a godly State. Since error has no "rights" those in possession of "the truth" must correct such parents and compel them to send their children to schools where they will be instructed in the tenets of the "true faith" and enabled to read their Bibles.

Melanchthon, a disciple of Luther, drew up in 1528 an edict demanding that every town in Germany establish at public expense a school where conscripts in the war against Satan could be prepared for battle. In Geneva another Protestant reformer, John Calvin, was similarly making a case for schools where all children were to be instructed in the "true faith" and "in the languages and worldly sciences" which served as a necessary preliminary for such instruction. Like Luther, Calvin was supremely confident that his possession of "the truth" gave him warrant to override the wishes and desires of parents who did not share his beliefs.

State Schools in Prussia

The first national system of compulsory state-controlled education emerged in Prussia. Kings Frederick William I, Frederick the Great, and Frederick William III succeeded, by the nineteenth century, in discouraging non-state schools, establishing an elaborate system of state-controlled schools, and placing the supervision of such schools under the direction of the Minister of the Interior. In 1810 State certification of teachers was instituted and in 1812 children were prohibited from leaving school until they had passed a State-set and State-administered examination. A complex bureaucracy checking on schools and presiding over this examination of necessity emerged.

Once again the "rightness" of such educational conscription seemed self-evident. Rulers *knew* what was in the best interests of the ruled, hence recalcitrant parents whose vision of the "good life" for themselves and their children was not in accord with their "real" well-being could coercively be corrected by the State.

A rationale for this had been provided by the eighteenth-century philosopher Jean Jacques Rousseau.

Calvin and Luther claimed to know "the truth" because God had revealed it. Rousseau did not claim such privileged access to the deity, but he postulated a reality which, in its wisdom and beneficence, exceeded the knowledge and goodness of any individual person or group of people. Over and above the many "wills" of individuals, valuing and seeking different goals, there existed a "general will." An intellectual elite was able to determine the edicts of that "general will" and, by virtue of that knowledge, coercively implement those edicts.

Rousseau's "General Will"

Although frequently depicted in texts dealing with the philosophy of education as an advocate of child-centered learning, Rousseau's educational philosophy in truth depends upon the existence and authority of this "general will." In *Emile* Rousseau does, it is true, depict the ideal educational system in terms of a child who, freed from the constraints of an adult's will, explores nature and its necessities (which, being "natural" constraints will not be resented) and thereby learns all he needs without being directed by any person.

Yet this is but part of the story. Emile has a tutor. His task it is to create situations in which nature will "teach" his charge precisely what he, the tutor, wishes it to teach. With a complacency bordering upon cynicism, Rousseau notes that "[there] is no subjection more perfect than that which retains the appearance of liberty" and that "[no] doubt [the pupil] ought not to do anything but what he wants to do, but he ought not want to do anything but what you want him to do; he ought not to take a single step that you have not foreseen." By systematically "hiding his hand" the tutor avoids any clash between his own will and that of the child. The pupil thus equates his will and the tutor's will. He is thereby conditioned to equate his own will with the "general will."

The nineteenth-century philosopher G. W. F. Hegel went further. The State, through which the "general will" found expression, was the earthly manifestation of the "Absolute" or "God." Liberty was found by individuals who recognized the State "as their own substantive mind" and took the objectives of the State as "their own end and aim."

Freedom in the U.S.

Compared with this exalted notion of the State, the view of government set forth in the U.S. Declaration of Independence and Constitution seemed pedestrian and simplistic. The authors of these documents perceived liberty in terms of the rights of individuals and groups to formulate, and strive to realize, any non-coercive vision of the "good life." The important but limited role of government was to enjoy a monopoly of coercive power and to use that power against individuals or groups who sought to impose their vision of the "good life" coercively upon others. Freedom was equated with the liberty of individuals, not the rule of the majority.

Given such an understanding of government, schooling was purely private. The early colonists, usually refugees from religious persecution, naturally established schools which would impart their faith to their children. In addition to such schools parents, tutors, and non-denominational private schools saw to the education of children. It would seem that they were, in terms of basic literacy, remarkably effective: those who, in the early and mid nineteenth century sought to establish a state-controlled system of schooling did not, in their voluminous writings, refer to any widespread illiteracy which had to be combatted.

Similarly, those advocating state-controlled schooling in the U.K. did not defend their cause by reference to widespread illiteracy among the poorest. Indeed Professor E. G. West has pointed out that in early nineteenth-century England a frightened government imposed steep taxes upon paper to discourage the poor from exercising their capacity to read by communing with such volumes as Tom Paine's *Rights of Man*. "Here . . . we have," writes West, "the paradox of a public managing to educate itself into literacy competence from personal motives and private resources, despite the obstacle of an institution called government which eventually begins to claim most of the credit of the educational success" (*Education and the State: A Study in Political Economy;* London, 1970). Precisely the same situation held in Australia where the case mounted for state-controlled schooling in no way depended upon any alleged illiteracy cursing the poorest (and again it is worth noting that radical political groups produced a multitude of pamphlets directed to the poorest—presumably poor but literate).

Social Benefits of Schooling: The Views of Horace Mann

The key to the case for state-controlled schooling which so excited intellectuals was the belief—not unlike the belief of Luther and Calvin—that they, an elite, were in the possession of a "truth" which obligated them to direct, guide, and if necessary correct the views of the masses. By linking Rousseau's notion of the "general will" to "majority rule" nineteenth-century U.S. intellectuals believed that they had discovered in the "will of the majority" (as, of course, interpreted by themselves) a reality marked by a wisdom and a goodness not to be found elsewhere. Schooling controlled by that "will" would result in nothing but good for the community.

Horace Mann, one of the foremost advocates of state-controlled schooling in the U.S.A., was not perturbed that the growth of the state-controlled system of schooling in Prussia he so admired had been paralleled by a growth in militarism and despotism. He was confident that the "quiet, noiseless development of mind" nurtured by that system would, in time, lead to "the people [asserting] their right to a participation in their own government." Indeed the benefits Mann asserted would flow from state-controlled schooling to the community exceeded the blessings Luther and Calvin expected would be enjoyed by their godly commonwealths. "[N]ine-tenths of the crimes in the penal code would become obsolete; the long catalogue of human ills would be abridged; men would walk more safely by day; every pillow would be inviolable by night; property, life, and character held by a stronger tenure; all rational hopes respecting the future brightened."

That such a system of schooling would be expensive did not deter its advocates. Asked John Quincy Adams, "Shall monarchies steal a march on republics in the patronage of that education on which a republic is based?" He answered his own question: "On this great and glorious cause let us expend freely, yes, more freely than on any other."

Adams' advice that a nation should "expend freely" upon a state-controlled system of schooling has been heeded, and not only in the U.S.A. Most developed nations are pouring ever-increasing sums of money into their schools. Yet, as already noted, it would seem that the community is receiving less and less for its investment. Whilst some people still perceive, with Mann, the school as the remedy for all social ills, the expectations of the majority are more modest. They expect the school to *train* their children in basic skills, *educate* their children in the habits of critical and creative thought, *socialize* their children, and *mind* their children.

Planned Conditioning, Lack of Education

Schools do succeed in "minding" children, keeping them "off the streets" where they might "roam" (whereas adults "walk") or "loiter" (whereas adults "stand"). They succeed in "socializing" children, although the current wisdom would have it that such must not involve conditioning children in patterns of behavior specified by an adult. (Whether this lack of planned "conditioning" simply leads to random "conditioning" by the mob, and explains why teachers in some U.S. and U.K. schools are demanding guards and "danger money," is an interesting speculation.)

Blandly to assert that state-controlled schooling neither trains nor educates overstates the case: doubtlessly those of us who can read must acknowledge the truth of the bumper sticker asserting "If you can read this, thank an elementary teacher" and number among our benefactors such teachers. (Fortunately, those who cannot read are unable to decode the bumper sticker and conclude that they should blame an elementary teacher!) Yet the fact is that too many children are showing fewer and fewer skills after investing more and more of their years in schools consuming larger and larger sums of taxpayers' money. A massive empire has been spawned, ruled by a priesthood of administrators, research workers, curriculum developers, "resource personnel," and bureaucrats. They, not children, have proved the beneficiaries of compulsory, state-controlled education.

Those concerned with the quality of schooling are forced, inexorably, to question state-controlled schooling. So are those who take pluralism seriously. If liberty is understood in terms of the rights of individuals to formulate, and strive to realize, their own non-coercive visions of the "good life," then state-controlled education is anathema.

What skills *must* be taught? Who is to say, for example, that reading, writing, and arithmetic are more valuable than carpentry? Could one not imagine a religious group which regarded reading, writing, and arithmetic as signs of an evil, worldly wisdom? Does the majority have the "right" coercively to correct this value judgment? If so, is it conceded that such a group, were it to constitute the majority of the populace, would have the "right" to make the teaching of reading, writing, and arithmetic a crime?

Again, even assuming total agreement as to the value of literacy, who is to specify what books are read? Is *Little Black Sambo* a banned book or compulsory reading? Are primary readers to depict "normal" families or lesbian couples who have adopted or conceived by artificial insemination a child? A neutral teacher antiseptically presenting all conceivable human life styles embodies a hidden, and therefore all-embracing, curriculum: the notion that value judgments are merely the idiosyncratic expressions of individual tastes, a viewpoint which, although popular, is simply unacceptable to most religious believers and many humanists.

Return to the Market Place

Those concerned with the quality of schooling, and those concerned with individual liberty, are led by different routes to one conclusion. Schooling must be returned to the market place. Consumers, at long last, would be free to register dissatisfaction with incompetent schools and teachers by the withdrawal of paying custom and, conversely, would again learn to value competent teachers and schools. Diversity in schooling would be encouraged—a diversity which can be dismissed as "divisive" only by people holding to an ideal of cultural homogenization which is sadly anachronistic in a pluralistic society. Schools freely chosen and privately funded would become "mediating structures" which, like churches, unions, corporations, and associations, foster a sense of identity and belonging; a reality which in a pluralistic and highly mobile society, is no longer fostered by "society as a whole."

Restoring Personal Choice

The market would encourage teachers to improve their professional skills, would indicate approaches to teaching which "work," and would stimulate creative people outside the present educational system to devise and market learning materials which, because of their effectiveness, would be purchased by schools and teachers. Specialized schools developing particular skills could be created by gifted teachers, students spending only part of their educational day and educational dollar at such schools. The poorest, assisted by voluntary associations to pay school fees, would have returned to them some control over their own decisions for their children and thereby recover some of the self-esteem which a well-intentioned State and its minions undermined when decisions once made by individuals and families were made for them by the "experts."

Most importantly, the dream of Martin Luther and John Calvin that they, an elite, could use the school system to impose their vision of the "good life" upon others would be ended. That dream evolved into a nightmare which flourished in Fascist Italy and Nazi Germany, still curses the U.S.S.R. and other Marxian countries, and threatens to envelop nations which once knew what liberty meant but are sleepwalking their way back into captivity by an allegedly all-powerful, all-knowing, and all-present State.

Those who still cherish liberty face the mammoth task of wresting control of schooling from the State and returning it, not to some abstraction called "the people," but to flesh and blood men and women whose visions of the good life vary and whose hopes for their children differ. Fortunately such people should be joined in this task by all who care about the quality of schooling available to their children and their children's children.

A REVIEWER'S NOTEBOOK **JOHN CHAMBERLAIN**

THE PUBLIC SCHOOL MONOPOLY

If, as Leonard Read has suggested, the "freedom philosophy" calls for the separation of school and state, we are in for a struggle that will last well into the next century. The sixteen essays collected by Robert B. Everhart for his *The Public School Monopoly: A Critical Analysis of Education and the State in American Society,* published by the Pacific Institute for Public Policy Research of San Francisco and marketed by the Ballinger Publishing Company of 54 Church Street, Cambridge, Massachusetts 02138, a Harper and Row subsidiary (583 pp., $30.00 cloth, $13.95 paper), offer little hope that government can be effectively denied a licensing function that makes even the most independent of our private schools subject to political will.

There are, to be sure, some mitigating factors—the "monopoly" alluded to in the Everhart title must currently contend with the struggles between the "federalizers" and the proponents of local state and community control; and there are some 5 million children in private schools, many of which are church affiliated. As always, opportunities for freedom lurk in the interstices of a diversified system. But in our inflationary age the money for education tends to be sopped up by the public educators. Private schools can hope for vouchers or tax credits or outright state grants (as in British Columbia), but the price that must be paid for such help includes a certain conformity to quota system thinking about sex and minorities.

Some of Everhart's contributors come close to saying that the public school must always be an instrument of control in the hands of a ruling class. If what these contributors are trying to tell us is that the schools, in any given period, will reflect a prevailing ethos, they are obviously right. Historically, this has not made for any oppressive uniformity in American schooling—the "ruling class" in nineteenth- and early twentieth-century society believed in Horatio Alger individualism, and our teachers took it for granted that what the Constitution guaranteed was freedom of opportunity, not a God-given right to leveling "entitlements."

Rule by Professionals

When the ethos changed with the rise of the "regulative" state, the schools changed with it. Curiously, this did not put "political content" into the schools. One of Everhart's contributors, Joel Spring, complains that the popular belief in professional "experts" breeds an apolitical citizenry that is willing to "let George do it." This has "stripped the schools of meaningful political content and directed their purposes toward the production of apolitical citizens who would accept a managed political and social system."

What Joel Spring is saying is paradoxical. Ideology has been banished from the public schools in order to facilitate the rule of professionals in our society. This amounts to a triumph for the technocratic ideologist.

"A free society," says Mr. Spring, "cannot afford to let schooling become an instrument of power." His pitch for an expanded private school system is implicit in his statement that "it is now important for society to consider whether or not it wants to continue with government-operated schools which are used to justify the power of those who control the schools."

Some of the Everhart contributors hope that the current revolt against over-regulation will encourage diversification by way of tuition tax credits, vouchers and tax codes. But Michael Apple, who is something of a leftist ideologist in his thinking, fears that the use of vouchers may "fragment" specific "progressive" movements. If "pluralism" is what we are after in an educational system, what is the objection to "fragmentation?" Do we want cookie-cutter schools?

Vouchers and Tax Credits

The most interesting essays in the Everhart book are those written by E. G. West ("The Prospect for Education Vouchers"), Donald Erickson ("Disturbing Evidence About the 'One Best System' "), and Roger Freeman ("Education Tax Credits"). Mr. West has high hopes that the $500 grant scheme as established in British Columbia will enable us to test predictions about whether parents can exercise the responsibility of free choice in their children's education once they are allowed the resources to do so. Mr. Erickson has his doubts about the "one best system" of the public schools, but he is not too sure that the British Columbia use of government grants to private schools will prove helpful to private education in the long run.

Teachers with "two masters," the province and the parent, may be torn in different directions. They may become less committed to parents and eventually to students. Erickson fears the growth of teacher "union mentality." And parents, "sensing more and more that their contributions and involvement are not only unneeded, but resented, may withdraw to the sidelines . . . Students, treated more like patients under treatment than members of a functioning community, may perform ever more inauthentically . . . Eventually, private schools could lose all the social climate characteristics that once distinguished them from public schools."

What Erickson wishes to retain are the things that "money cannot buy, such as commitment, a consensus, community, accomplishment, and exceptionality." He hopes that "Canada's experiments will provide clues for the improvement of all schools," but wishes that British Columbia had chosen to help private schools by tax credits going to parents instead of by direct government grants to the schools.

Partisans of public education fear that any help to private schools will tend to impoverish the public school system. If private education were to become universal, this would obviously be true. But if it is just a question of enabling some private schools to survive in an inflationary epoch in which parents can't afford to pay twice for education, the granting of $450 to $500 in tax credits per private school pupil would actually be of financial benefit to the public schools.

Roger Freeman's arithmetic shows why this is true. It takes $2,200 of taxpayer money to support a child in public school. A $500 grant enabling a student to shift to a private school would leave the public school system $1,700 extra to spend on the students who stick to state-run schools. With more money to be spent on fewer pupils, the public school could supply better teaching and smaller classes.

Mr. Freeman tackles the question of the constitutionality of vouchers and tax credits to Catholic parents head on. Since the First Amendment guarantees freedom of religion as well as freedom of speech, how can the courts assert the unconstitutionality of help to Catholic parents in retaining some of their own money for church-supported education? People now get tax credits for donations to churches without being accused of helping the government to "establish" a state religion. Where is the courts' consistency?

PRIVATE GOLD COINS AND PATTERNS OF THE UNITED STATES

by Donald H. Kagin
(Arco Publishing, 219 Park Avenue South, New York, N.Y. 10003), 1981
432 pages ■ $29.95

Reviewed by Brian Summers

THE MARKET is a great problem solver. Where there is a need, and people are free to fill that need, solutions soon appear.

One such problem is the need for a stable, reliable medium of exchange. When the government has failed to provide such currency, and private minters were free to fill the void, the mintmasters performed admirably well.

But, until now, the story of the private minters has received little attention. They aren't mentioned in books on money and banking, even though in the years 1830 to 1862 they minted an estimated $75,000,000 in $1 to $50 denominations. Coin books contain only a few paragraphs, while numismatic magazines run an occasional article.

Now, however, Donald H. Kagin, the first American to earn a Ph.D. in Numismatics, has written a definitive study on the private minters and their coins. The result is a fascinating history of rugged individuals, frontier towns, and feisty competition.

Private minters coined gold in Georgia, North Carolina, California, Utah, Oregon, and Colorado. Their coins weren't legal tender, so no one was forced to accept them.

How well were the coins received? Just like any other product offered in the market. The good ones were readily accepted and used. The bad ones quickly fell into disuse. In a free market, good money drives out bad—the exact opposite of what happens to legal tender coins.

More than a century has passed since the federal government imposed its legal monopoly over coinage. The needs of commerce have changed. Yesterday's gold coins might not prove popular if today's markets were suddenly freed from government intervention.

But certain principles remain. When competition is permitted, it is still the great discipliner of monopoly. When markets are free, they still bring forth solutions. And when people have a choice, they still prefer a stable, reliable medium of exchange.