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Leonard E. Read, *President*

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Sam H. Husbands, Jr.

FREE TRADE AND FOREIGN WARS

It is my purpose to show that though the principles of free trade and no entangling alliances on which the nation was founded were unique and sublime, we find that economic fallacy, misplaced patriotism, and political compromise have combined to undermine the legacy of those principles.

In his first annual address to Congress in 1790, George Washington said "Observe good faith and justice toward all nations. Cultivate peace and harmony with all . . . The nation which indulges toward another an habitual hatred or an habitual fondness is in some degree a slave. It is a slave to its animosity or to its affection, either of which is sufficient to lead it astray from its duty and its interest . . . it is our true policy to steer clear of permanent alliances with any portion of the foreign world."

In his first inaugural address in 1801 Thomas Jefferson stated that among his essential principles of governing would be a policy of "peace, commerce and honest friendship with all nations—entangling alliances with none."

And so it was that the founding fathers understood that for free men to remain free they must remain strong in their defense but avoid meddling in other nations' affairs.

The test of that resolution to remain free of foreign wars was to confront Washington and Jefferson in

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Mr. Husbands of San Francisco is a member of a national investment banking firm. He is a Trustee and past Chairman of the Board of The Foundation for Economic Education. This article is from his address at the Fall Meeting of the Board and guests at the Foundation, December 5, 1982.

the first years of the Republic. A combination of events, including legislation passed as the Merchant Marine Act of July 4, 1789 and the acts of a quartet of Barbary powers were leading the nation to its first experience in foreign intervention, the results of which were as ambiguous as any of the dozen or so adventures abroad that were to follow to this day.

The Merchant Marine

The 1789 Merchant Marine Act instituted tariffs for revenue purposes, but with a tariff differential of 10% on any goods shipped in American holds. The effect in stimulating the growth of a distinctly American Merchant Marine was startling, for in 1789 the United States was carrying 17½% of her imports and 30% of her exports. Within six years these numbers had become 92% and 88%, and yearly tonnage under the American flag had grown from 123,893 tons to 529,471 tons.

To advocates of free trade, any reduction in tariffs is good, no tariffs better, but the outgrowth of this selective tariff disparity was the "American" merchant marine. The promotion and protection of its ships and men became a patriotic duty. Just one hundred years later, in 1881, William Graham Sumner considered the necessity of a national merchant marine, and wrote:

> If Americans owned no ships and sailed no ships, but hired the people of other countries to do their ocean transportation for them, it would simply prove that Americans had some better employment for their capital and labor. They would get transportation as cheaply as possible. That is all they care for, and it would be as foolish for any nation to insist on doing its own ocean transportation, devoting to this use capital and labor which might be otherwise more profitably employed, as it would be for a merchant to insist on doing his own carting, when some person engaged in carting offered him a contract on more advantageous terms than those on which he could do the work.

The seizure of American merchant ships and sailors in the late 18th century by Barbary rulers, and to a lesser extent the harassment of American shipping by the picaroons of the West Indies, brought humiliation to the young nation. The resulting pressure on its political leaders led the country to embark on a program of rapid construction of six imposing frigates, the 44-gun "United States," "Constitution," and "President" and the 33-gun "Constellation," "Chesapeake," and "Congress."

The construction of these first elements of the U. S. Navy found support from Northern ship-owning families, but only disinterest or even animosity from most Southerners, who were not as concerned about what flag flew over the ship that took their cotton to English and Continental mills.

The legitimate defense of the territory of the United States may have been a beneficiary of the emergence of the U. S. Navy, but the immediate stimulus to the construction of warships seems to have been the urgency to protect American civil shipping in far off corners of the world. The early adoption of a far-flung policing function for the U. S. government was a precedent which allowed later interventions abroad to come about with less controversy.

The Barbary Wars

The Barbary Wars were to last from 1800 to 1815, at a cost of hundreds of lives and millions of dollars for, at first, tribute and ransom, followed by the expense of construction of ships and naval operations in the Mediterranean. However, direct military intervention is only the most observable of the many ways in which we as a nation became "slaves to habitual hatred or fondness" for the people of other nations.

Were man perfectible the concept of nationhood might be obsolete. In the absence of that perfectibility, the nation state is likely to survive though I should hope as only a shadow of its present size. Man's institutions, like man himself, are imperfect, and must be vigilantly watched lest they assume unintended roles. When acts are made in the name of the state which are contemptuous of liberty and the good sense of market economics, and which may in fact lead toward war, they must be exposed for the menace they may present to the Republic.

Rhodes Boyson, Britain's Minister of Education, has likened man to a three-legged stool, one leg being moral or religious, one economic and one tribal. Dark deeds have been done in the name of each of these aspects of man's character, but in this century the tribal and economic elements have dominated man's actions, at least in the West. Economic fallacy teamed with rampant nationalism and without moral balance has proved to be a terribly costly affair in lives lost, economic deprivation and cultural undermining.

And so it is that military conflict stems not only from such obvious causes as pure territorial aggrandizement and gratification of monumental egos, but often from a military extension of economic fallacies. Economic nationalism is invariably a partner of military intervention.

Some of the fallacies and interventions that always accompany them, include notions of the necessity for:

(1) A favorable balance of trade.

(2) The protection of domestic industry.

A few of the interventions that logically proceed from these fallacies include protective tariffs, import quotas, domestic subsidies, antidumping laws, and currency controls.

Underlying all of these interventions is the notion that government through fiat actions can cause beneficial outcomes without offsetting costs. One does not have to be the complete cynic to suggest that what might be argued on the theoretical level in economic terms comes down in fact to a political formula: Can one group of voters be satisfied through a visible hand-out while another group of voters, affected adversely, and often unknowingly, by interventionist legislation, be mollified through dissembling and obfuscation?

One of the textbook excuses for tariffs has been that they were necessary to protect infant industry. Now that has been modified so that we are led to believe we must also protect mature, ailing industry. In fact, it is only with free trade that entrepreneurs are encouraged and noncompetitive enterprises are culled out, and these are two sides of a vigorous, productive and free economy.

There are then the laws which reinforce the notion that exports are better than imports, known as a "favorable" balance of trade. Bastiat, the 19th-century French economist, took the favorable balance of trade argument to its logical end, and suggested that were such a thing so desirable, the custom agents should record the export of French silks to Britain and hope the ships will founder, since the result would be a recording of, say, 1,000,000 francs as an export and no offsetting import, since the silk manufacturer has received no payment with which to purchase British goods. The result would be a favorable balance of trade, but we needn't envy France for having achieved that goal.

Balance of Payments and Balance of Trade

Balance of payments refers to the accounting between nations of all goods, services and financial transfers. On a pure gold standard or pure flexible exchange rate basis, balance of payments tend to balance on a regular basis. Balance of trade is this figure less "invisibles" or cash transfers.

Jacques Rueff demonstrated in his book *Balance of Payments* that France had an "unfavorable" balance of trade with Germany for over 50 years from 1870–1933, with the exception of the four years after the Franco-Prussian War, when France was making reparation payments to Germany. Again, the act which causes the "favorable" balance of trade is obviously not in the interest of French citizens at large, but may only favor certain special interests. The reason for the long period of French-Prussian balance of payments situation was, of course, the result of the dominant French investments in Germany.

This necessitated a French "unfavorable" balance of trade in order to offset intangibles such as dividends and interest accruing from French investments in Germany.

Milton Friedman has made the observation that the most favorable situation that could visit a people would be that in which we send dollar bills to Japan in exchange for automobiles, and the exchange ends there. If Japan were a willing partner to that transaction we could all retire. The absurdity is obvious.

Extending the Logic

What difference, in moral or economic terms, is there between a New Yorker buying an automobile built in California by a naturalized Japanese-American or an automobile built in Yokohama by a Japanese national? Yes, one is American and the other Japanese, but if that argument has merit why not extend it backward and suggest that no New Yorker buy anything not made in New York, or extend it even further, and suggest that it would be in the interest of the denizens of Manhattan to buy no item not made on the island. One thing, for sure, there wouldn't be much to eat, certainly no bananas.

Unfortunately, the Constitutional prohibitions against tariffs did not extend to international trade.

One often hears that free trade is fine, but not unfair trade, that being defined variously as everything from foreign government subsidy of exports to foreign workers receiving relatively lower wages. "Dumping," a useful pejorative, is generally considered the extreme variant of unfair trade. Dumping refers to goods being sold in this country at a price below which they are sold in the country of origin. I daresay the network news commentators would look with favor on an announcement by the British government that it was going to give away 10,000 Rolls Royces to a random group of lucky American citizens, in gratitude for American help in World War II.

It is highly unlikely that even the American automobile industry could rally much of a boycott against such an act, though it would remove those 10,000 individuals as potential customers for Detroit autos. There is no economic difference between such a daft proposal and that act of constructing and operating the Concorde supersonic aircraft, with losses made up each day by French and British taxpayers. Each traveler on the Concorde could consider the advantageous speed the aircraft offers as a partial gift by those taxpayers. However, the United States should have a difficult time working up much of a lather over foreign government subsidies for their businesses when we have such institutions as the Export-Import Bank, agriculture subsidies and Federal insurance on foreign investment.

Tariffs for Protection

U. S. tariffs were primarily a revenue-raising device prior to the Civil War. The first tariff passed in 1789 raised half of the nation's fiscal needs, and by 1808 duties were providing twice the federal government's expenditures. By 1816 tariffs were becoming specifically protective and by the 1970s when revenues from duties only totaled 10% or so of the budget, their nature had evolved almost purely into protectionist devices.

Historically, Republicans have been defenders of high duties, Democrats lower duties. At the moment, sympathy for protectionist tariffs seems to be a bi-partisan affair. As mentioned earlier, protectionist tariffs have always been introduced on the ground that a particular industry is threatened by foreign competition. For the sake of jobs and the long-term future of the country, imports, under this persuasion, must be selectively restricted. What those advocates fail to point out is that for everyone who benefits from tariffs there are others, perhaps less observable, who are being economically punished.

The recently passed quotas on the importations of steel, at the behest of domestic steel management and labor leaders, have received nothing but plaudits by the favorably affected industries and the media, though often couched in terms such as "the act is too little or too late." One would have to seek out journals of economic opinion, and selective ones at that, to find mention of those who suffer as a consequence of those import quotas.

Currency restrictions and pegged exchange rates are put in place to cover up governmental overspending and inflation, and to exert control over citizens in their attempts to make voluntary transactions with others or to avoid government's confiscation of their accumulated wealth. It is a delaying tactic; no matter how severe the penalty, if the free market exchange ratio of two currencies is different from that dictated by government, the pegged price will be undermined by market forces resulting in sudden and catastrophic devaluation. U. S. laws to make it a felony to move more than $5,000 in or out of the country without reporting it only reinforce those who see it their business to run others' lives.

However, the most melancholy of all these false economic persuasions is autarky or National Economic Independence. What inevitably follows the embracing of this concept is the implied or real expansion of national borders with consequent recourse to military action. One of the major differences that divided

Hitler and his finance minister, Hjalmar Schacht, was over this concept of economic independence. How unsettling when we have words from Wall Street to Washington that sound so familiarly like those of Hitler when he suggested the necessity for economic mobilization "comparable to the military and political mobilization."

The Pattern of Controls

Though the imposition of Wage and Price controls in 1971 was done in the name of controlling inflation, those controls remaining on oil and gas caused the government to begin to intervene in the classic manner of politicians anywhere who believe in the economic and political benefit of autarky.

The United States is widely regarded as the marginal factor in world production and consumption of oil. The steps that follow essentially led this country to place a *floor under* the price of oil not a *ceiling over* the price of oil as the Department of Energy bureaucracy would have led us to believe.

Step 1. 1971—Wage and Price controls instituted.

Step 2. Most controls removed in 1973 but kept on oil and gas.

Step 3. OPEC raises prices drastically.

Step 4. We counter, irrationally, with the "entitlements" scheme encouraging imports, and price controls, discouraging domestic production.

Step 5. We don the national hair shirt of a contrived energy crisis and directly intervene in the auto industry through mileage requirements and 55 m.p.h. speed limit.

Step 6. This forced draft downsizing causes extraordinary capital expenditures and dislocations in the American automobile industry.

Step 7. Japanese and German auto manufacturers find themselves in the fortuitous position of manufacturing automobiles that are now perfect for the American market, this having come about because of their own governments over the years imposing three times the taxes on gasoline as in the U.S.

Step 8. The U. S. government urging National Energy Independence through subsidy and tax break, resulting in unnecessary and uneconomic allocation of capital to "alternate" fuel sources.

Step 9. All of this resulting in a disabling of the domestic automobile and steel industries and immeasurable costs to all the Western world.

One frequently hears that our presence in the Middle East is necessary to protect "our" oil. The implication is that in our absence, the oil would necessarily fall into unfriendly hands and those parties would then embargo exports to the United States. Ironically, *Business*

Week reports on November 8, 1982, that "Standard Oil of California and Texaco are reportedly trying to minimize their take of Saudi oil in favor of cheaper Russian and Mexican oil." In fact, another "lubricant," ball bearings, owes its existence to the importation of chromium ore. Ninety per cent of what is used in this country comes from abroad, the Soviet Union being one of the largest suppliers.

Does our dependence on importation of chromium or other exotic minerals require government's intervention to insure supplies? I would suggest quite the contrary, for it is the reliance on the market place and individual initiative which will insure our supplies. As Hans Landsberg, Senior Fellow at Resources for the Future, says in a *Forbes* article of November 22, 1982: "We preach belief in market forces but we abandon reliance on them too easily."

Intervention Policies at Home Lead to Conflict Abroad

Each step we take to insure National Economic Independence carries us ever closer to military conflict. Our Middle Eastern commitments have now grown to the point that troop strength assigned to the Rapid Deployment Force is 230,000 soldiers, sailors and marines, that number to double in coming months. Its assigned area of operations will cover 20 countries in the Middle East, excluding Israel. The force, it is reported, will take on responsibility with the objective of strengthening friendly nations *politically* and militarily. How far removed that notion is from those admonishments of George Washington at the founding of the Republic!

A logical step that follows the notion of economic independence is the use of sanctions and embargoes. It is with these acts that we skate close to the pitfall of war. The problem is that sanctions by definition inhibit the market and precipitate reactions from perceived or real enemies which may have been unnecessary in their absence.

Pinpointing the root cause of any war is precarious. A colleague noticed some graffiti in San Francisco around Columbus Day which said: "World War III started when Columbus took away the land from the Indians." Of course, using that logic, the apple would be at the core of all our problems. One can, nonetheless, wonder whether the oil and steel embargo of Japan and the resulting fall of the Konoye government in October, 1941 did not in turn lead to the controversial exchange of the Greater East Asia Co-Prosperity Sphere for Communist hegemony throughout a major part of the Far East. The resultant loss of lives made the earlier Rape of Nanking appear an almost minor tragedy of this tragic century.

Steps for Survival

But what steps should the United States take to insure its survival in what can be a most unfriendly world?

It first must insure its priorities are right from the perspective of its uniqueness as a liberty loving, free market, limited government example to the world. Free trade is an inherent part of that profile. The maintenance of the military necessary to defend the country from aggressive acts can only be consistent with the American ideal of choice if it is maintained by voluntary enlistment. One hears much about one's obligation to make a "fair share" contribution to causes. There is a rule of thumb that in voluntary associations, 20% of the members contribute 80% of the time and money necessary to keep the effort going. Any notion that even with a draft there is an even sharing of responsibility for the defense of the country falls in the face of the evidence that few soldiers in any war are in line operations, and one study shows that fewer than 50% of those actually fire at the enemy.

Ronald Reagan said in a letter to Senator Mark Hatfield on May 5, 1980 that "draft registration may actually decrease our military preparedness, by making people think we have solved our defense problems when we have not. . . . But perhaps the most fundamental objection to draft registration is moral. Only in the most severe national emergency does the government have the claim to the mandatory service of its young people. In any other time, a draft or draft registration destroys the very values that our society is committed to defend."

Milton Friedman in a debate with a U. S. general at Stanford University defended the pro-volunteer Army position. The General scoffed that he did not want to be defended by "an army of mercenaries." "Would you rather," Friedman replied, "be defended by an army of slaves?"

With the exception of President Reagan's implication that there might be emergencies in which the draft was desirable, I would otherwise agree with both in abhorrence of the use of force to conscript people to defend the country.

Defensible Action

The full-time job is the nourishment of the precepts of liberty at home and noninterference with other nations' affairs abroad. There will always be good men and women who will come to the defense of such an arrangement.

If foreign intervention tends to erode domestic liberty—as I would contend—there may still be instances where American citizens wish to put in with others they perceive to be suffering. The repeal of the legal inhibitions, including the Logan Act, preventing individuals from aiding those in other nations would expand free choice with no perceived risk to a nation bent on limiting its government's role.

Obviously, it is the understanding of and the willingness to stand by the principles of free choice which underlie the maintenance of a free society. What could be better than a rereading by veterans of free market theory or a first reading by a novice of Bastiat's works, or Henry Hazlitt's *Economics In One Lesson* or Leonard Read's "Conscience on the Battlefield" to make certain the argument on behalf of freedom remains articulate and principled?

Above all else it is vital that if the case for liberty is to prevail, the dangers of war posed by imposition of foolish economic theories be recognized and free exchange be applied to international as well as domestic trade. The saying is as true today as it was a century ago, "If goods do not cross borders, soldiers will."

Tariffs and Dumping

IDEAS ON LIBERTY

THE term *dumping* carries a fairly definite impression to most people, but to define it is not easy. When goods from one country are sold in another at prices below the cost of producing them, the process is commonly called dumping. Presumably it doesn't matter whether it is an individual or a firm or a government that does it; it is still called dumping.

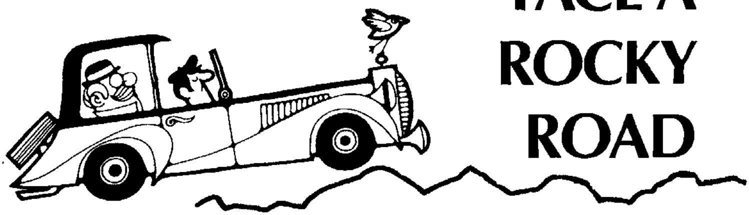
The argument against dumping is that domestic producers cannot meet "unfair" competition from abroad. The remedy often suggested is to raise a tariff wall against these products by an amount equal to the difference between what foreign producers are willing to sell for and their costs of production. Sometimes the comparison is even made with *our* costs of production.

Since when has the cost of production been the determining factor of the selling price? This idea is based on the labor theory of value, rather than on the market theory. Using this same argument, local tariffs should be levied against all domestic businesses which, for any reason, offer their products for sale at a price below the cost of production. Of course, the advocates of this argument demand that the government be given the power to determine the "true" cost of production. And don't laugh this off as a joke because it has been seriously proposed more than once. The proposal may be in the form of a subsidy rather than a tariff, but the reasoning is the same.

W.M. CURTISS, "The Tariff Idea"

Melvin D. Barger

FREE RIDERS FACE A ROCKY ROAD



"I hope you're enjoying your day off," a neighbor told me some years ago. "You wouldn't have this holiday if it wasn't for the union. Maybe you ought to thank them for the free ride you office people get while the factory workers pay dues and do your fighting for you."

As a salaried employee of a major corporation, I've been taunted by this argument a number of times. It's essentially the "free rider" argument. The point of this argument is that a union obtains pay increases and benefit improvements for *everybody* in the organization, and not just those covered in the bargaining unit.

In fairness, I would have to admit that this is true. The items covered in my employer's union contracts have routinely been distributed to nonunion employees almost immediately after the signing of union contracts. Over the years, we've received cost-of-living adjustments, pension improvements, salary increases, extra holidays, and even dental and eye care programs. These changes were obviously related to similar changes in union agreements, so it would be ridiculous and false to insist that there was no tie-in.

I sometimes worried about the way spiraling costs were hurting our business. And it bothered me in late 1974 when the union negotiated hefty wage and benefit increases even while hundreds of employees were laid off. Like other free riders, however, I went along with the process, and accepted the new benefits as an additional "right." As far as I know, not a single free rider protested be-

Mr. Barger is a corporate public relations representative and writer in Toledo, Ohio.

cause of a system that enabled people to demand and get wage increases *even when the market for their services was sliding.*

A Changed Climate

Today the climate has changed dramatically—changed both for union members and for other employees who have gone along for the ride. Unemployment has been soaring, from an 8 percent rate in September, 1981 to a 10.8 percent rate only 14 months later. Basic industries such as autos, steel and construction are in deep trouble, and this is causing ripple effects of distress throughout the nation. White-collar workers, the so-called free riders, have been caught in this storm along with unionized employees. In the September 1981 to September 1982 period, unemployment among white-collar workers rose from 4.1 percent to 4.8 percent, and the climb apparently is continuing.

In this deteriorating economic climate, the unions have become a favorite target. They are blamed for shoddy work practices which have made American goods less competitive in the market, they are blamed for refusing to make wage concessions which would lower manufacturing costs, and they are blamed for supporting legislation which raises taxes or handcuffs business.

The unions deserve this critical attention, and it's probably causing some members to question whether unions have served their best interests. But let's not believe that we can dispose of our problem simply by putting a union label on it. We free riders also deserve some of the blame, if only because we shrugged at ideas and practices which helped create the serious problems we now face. If we're traveling on a rocky road today, it's because we once thought it was a smooth highway into the future.

Both union members and free riders have made certain assumptions, or held certain beliefs, which are turning out to be liabilities for the nation as a whole. Here are three of these ideas which need re-examination and overhauling:

1) That compulsory union membership serves the interests of all workers;

2) That wage and other cost increases can be "passed through" indefinitely in the form of higher prices;

3) That companies, with their seemingly large resources, are the basic providers of jobs and security.

None of these ideas stands up very well when it is thoroughly explored and tested. Yet both union members and other company employees in the United States have acted as if these three beliefs were true. As a result of these false beliefs, there has been a tendency to ignore market signals which clearly were pointing to trouble ahead.

Here, in my opinion, are some of the things we free riders should have given more consideration to, in the years when we thought we were traveling on a smooth highway.

Compulsory Union Membership

For one thing, we should have worried about the long-term and general effects of compulsory union membership. The public has fretted about the "greed" of the large unions and, occasionally, the weakness of management in coping with union demands. In fact, however, the system has been tilted politically to give unions unusual powers in the bargaining process. It is useless to blame unions for abusing this power. It is pointless to insist that management should have shown more firmness in bargaining sessions. Given the realities of compulsory union membership, we have come out about where we should have expected to be.

The public seems to be ambivalent about unions. On the one hand, there is a belief that unions were once very necessary and performed a useful service in bringing general improvements to working conditions and in raising pay levels. But now unions are seen as "having too much power" and there's a belief that they ought to be reined in or made to behave in a more responsible manner. There is amazement at some current union actions, such as the strike by Chrysler's Canadian workers at a time when the company's future is very shaky. Why do unions, or their members, sometimes behave in ways that seem to go against the public interest and may also destroy their own jobs? (We free riders are especially alarmed when unions launch strikes which threaten *our* jobs as well as the jobs of striking workers!)

But by authorizing compulsory union membership, the public (through its elected representatives) also authorized what it now deplores as abuses of power. Without compulsory membership, there are checks and balances which would serve as natural restraints or adjustments in relations between companies and their work forces. If there is no compulsion, for example, some members could refuse to pay union dues or they could resign from the union if they disagreed with its actions. Other workers could be brought in to replace the workers who had struck. And there could also be vigorous prosecution when the union uses violence to enforce its demands, as unions have done in hundreds of cases.

Admittedly, most of these actions to restrain unions have been discredited or held up to ridicule. But that's only because unions were so successful, in the past, in winning support for practices which would frighten us if everybody adopted them. The nonunion, salaried employees of a company do not have the same "right to strike" that is conferred on union organizations. Yet many of those salaried employees—the free riders—think it is reasonable and proper that unionized employees should have this privilege.

I've also talked with many salaried, nonunion employees who do not understand the implications of the unions' right to strike. They feel that a strike is just the normal use of one's right to quit a job. But if striking workers were merely *quitting* their jobs, most companies would respond simply by hiring new workers and starting up again. The *real* power of the strike is the unions' power to keep companies from exercising this alternative. Unions do this by using either the law or violence to enforce their strikes.

Over the years, unions have used the strike weapon to bludgeon most of the major U.S. industries into compliance with union demands. We free riders, as well as unionized employees, have been included in the process. And many of us, while voicing disapproval of high-handed union actions at the bargaining table, may have secretly enjoyed what was going on. "I hope they get what they're going after," one of my fellow employees told me, just after the union's demands became known. "The company will have to give us the same benefits!"

But while this was going on, few people paused to ask what the cumulative effects of these periodic contract agreements might be. We can now look back and realize that excessive costs have destroyed one market after another for U.S. producers. We now feel that unions should have shown more "social responsibility" or foresight. But most of us probably believed that increases in wages and benefits could always be "passed through" in increased costs.

The Myth of "Passing Through"

We free riders got into trouble because we believed, along with the union, that large industrial companies could always "pass through" increased costs to the customer. This was widely believed about the U.S. automobile industry, and some critics even felt that bargaining negotiations were simply *pro forma* sessions which unions and management conducted at the customer's expense. This was believed possible because U.S. auto manufacturers had little strong competition in American markets until the 1960s, when both European and Japanese producers began to move into the U.S. market in force.

In fact, however, there is almost no way increased costs can be "passed through" indefinitely, or even for the short term, without harming one's position in the market. Even when U.S. manufacturers dominated the market, increases in automobile production costs resulted in higher prices which forced some buyers to abandon or postpone their purchases. Or, if they purchased automobiles at higher prices, they passed up the purchase of something else on their lists of preferences. In any case, higher costs and prices always led to reduced sales and production for somebody, although it happened so slowly and was spread over such a large market that few people noticed it or could trace the process.

It's possible that economics professors and antibusiness writers helped perpetuate belief in this myth. Major U.S. industries, they argued, were "oligopolies" which gave companies the power to adjust prices markedly without paying any penalty in reduced sales. Business leaders and marketing executives who said this wasn't true were merely being "self-serving" in order to maximize their own profits and take a larger share of the pie. Meanwhile, by demanding a larger share of the pie for themselves, unions were performing a useful social function.

Free riders, also, believed that costs could be "passed through" in a painless manner, and few of us realized what the cumulative effects of this false belief would be. U.S. manufacturers held a dominant position in world markets until about 1965, and then a tremendous slippage started to occur because of price competition. In market after market, we had become the high-cost producers, and jobs were lost in steel, in autos, in textiles, in shoes—in virtually every manufacturing industry.

When plants were closed, free riders lost their jobs along with union members. There were rising complaints in northern industrial states about losing jobs to "cheap labor in the South" or "cheap foreign labor" in Taiwan, Mexico or Japan. But the competition from low-cost producers elsewhere was not the real cause of our problem, although it did help dramatize the cost inefficiencies of many American industries. Even more dramatically, it proved that even the largest manufacturers and so-called "oligopolies" do not have much power when it comes to "passing through" cost increases.

Now, it is true that mature industrial states like Ohio and Michigan have a tendency to become high-cost areas over long periods of time. It was inevitable that other areas in the United States and in foreign countries would someday challenge us in our markets. But we made it much easier for them to succeed in this challenge when we accepted the idea that major U.S. industries had the power to bypass price competition.

Who Provides the Job?

A third false belief we free riders accepted is that companies, with their seemingly large resources, are the basic providers of jobs and security. This seemed to be true because many people, both union and nonunion, spend their lives with strong companies which always offered good pay and benefits. In these arrangements, the company is viewed as the employer and the jobs are a form of property.

We are now learning that no company has a fixed number of jobs which it can offer to any group of employees, union or nonunion. Employees may like to think that they have lifetime employment, but this is a false belief because the company itself is mortal and cannot really control the length of its own lifespan. Good management and brilliant planning may make one company more successful than another, but every company is subject to market changes and unpredictable events which can wipe it out almost overnight.

We have been getting a lesson in this reality. Who would have believed, some years ago, that great industrial firms like Chrysler Corporation and International Harvester would move to the edge of bankruptcy, dislodging thousands of people who once thought they had lifetime employment with these companies? Who would have believed that General Motors Corporation would have more than 150,000 people on indefinite lay-off by 1982 or that more than 500,000 jobs in auto manufacturing and auto-related industries would be lost with little likelihood of restoration? All of this has happened, and the process has been repeated in most major industries.

The Customer Is in Charge

What this should teach us is that *no company is really the basic provider of jobs and security.* Every company, no matter how vast its resources, is really performing a brokering service between customers and the resources needed to supply customers with products and services. Jobs come into existence when there is a market need for them, and pass out of existence when the market need for them disappears. Job levels also can be reduced when companies change the combination of resources needed; for example, when a highly automated plant replaces a less efficient one that required a larger work force.

In the current recession, some business analysts are telling us that millions of jobs have disappeared and might never come back again. What really happened is that *customers* who formerly *provided* the jobs have changed their preferences for various reasons. And just as companies do not have the power or willingness to provide lifetime employment, neither can customers continue to schedule their purchases so as not to disrupt our personal employment plans. This may bring anguish, not only to employees of a company, but also to shareholders, plant communities, suppliers and many others who depend on the company. It is a fact of life, however, that the customer is the real provider of the job, and we ignore that fact at our own peril.

There Is No Such Thing as a Free Ride

Perhaps some of our friends who constantly tell us there is no "free lunch" should also say that there is no such thing as a "free ride." We do live in a very complex society in which many forces are delicately balanced and related to one another. Almost everything we do or think is bound to affect somebody in some way. More to the point, everything we do or think in our commercial activities will eventually affect our pocketbooks in some way.

As a free rider, I now think it was wrong to pretend that I was a spectator or innocent bystander during the years when our own basic industries were being sapped of the vitality and cost-efficiency which once brought them leadership in world markets. I should have realized, more keenly than I did, that false beliefs and unsound practices would lead to trouble for all of us.

And while I have been critical of unions in this article, I do not really blame them for the troubles we are in, as some of my fellow free riders do. Industrial unions are simply forms of the pressure groups we have throughout society. Many of the people who criticize industrial unions belong to pressure groups of their own which are seeking special legislated advantage at the expense of the rest of us.

The Real Message

What our troubles should be telling us is that we ought to look at ideas and practices in the early stages, and do something about them before they've run their course and produced so much damage. We should really be studying trends and ideas by asking where each is likely to lead.

Take, for example, the time when my neighbor taunted me about receiving the extra holiday which came as a result of the new union contract.

If I had been thinking with any clarity, I might have replied thusly: "Yes, it is always nice to have a day off. But the union did not really 'give' me this day off. It had to come out of our business in some way, and what it really means is that the company has been forced to pay me for not working. But the company is really only a broker between customers and resources, so the truth is that our customers had to pay me for not working. Today's vacation is really a small amount and it's not likely to affect their decision to use our products in the future. But I am concerned because we've been piling lots of things onto the customers. I hope the customers do not eventually rebel and put the union and free riders like myself out of our jobs."

But that would have been too much of a statement for a warm holiday morning when everything seemed to be going so well. And I'm also afraid my neighbor would have replied with a popular two-syllable expletive. In his view, I was a free rider, and that was that.

He was right—but he should have noted that almost everybody in the country has to go along with whatever ride is being offered.

That's why we should all pay more attention than we do to the driving. We now know that the road can become just as rocky for free riders as it does for the people behind the wheel.

IDEAS ON LIBERTY

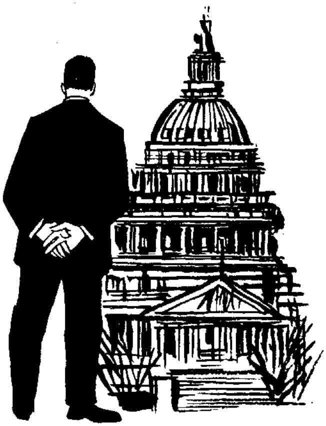
Let the Market Decide

INSTEAD of making a union the exclusive bargaining representative for all employees in a firm when it has been selected by only some, the law should see that those who object to the union retain their basic right, as free men, to fend for themselves. When men are forced in the first place to join unions, forced in the second place to go along with all plans and programs conceived by their leaders, and forced in the third place to keep their peace if they wish to keep their jobs (and maybe their health)—it is not at all surprising to find a good many trade-union leaders less than responsive to or honest with their membership. . . .

Power acquired by force and subject to no continuing functional check is bound to corrupt. Corporate managements are kept in line by the right of stockholders to move their equities when they are dissatisfied and by the right of consumers and other purchasers to take their patronage elsewhere without let or hindrance when price or quality are poor. If the house of labor is to be clean, the same general principles must be applied there, with the workingmen of the nation in the position of stockholders and consumers. It is as absurd to expect good clean unionism in conditions of extensive compulsory unionism, as it would be to expect good government in a society where the divine right of kings or the dictatorship of the proletariat was the central political principle.

SYLVESTER PETRO, "Can Labor Clean Its Own House?" (1958)

Clarence B. Carson



THE CRISIS OF THE WELFARE STATE

DISTRESSING SYMPTOMS often induce people to go to a physician. Quite often, these symptoms indicate that a patient is afflicted with some internal disorder. The symptoms may range from headaches to dizziness to fever to a vast assortment of aches and pains. It is not unusual for a physician to prescribe something aimed at relieving the distressing symptoms, even when he may go beyond that. Indeed, many of us take home remedies to relieve symptomatic discomforts before or instead of seeing a physician. Despite the complaints of some purists in the medical profession or among scientists that this is treating symptoms rather than curing the disease, the prescribing or taking of medicine which provides symptomatic relief is often sensible, adequate and economic. After all, an aspirin to give temporary relief from a headache or reduce a fever may be all that is required.

Even so, symptoms *are* symptoms. They are not the ailment, though they may be important signals that something is awry. To put it another way, symptoms are effects, not causes. The effects may have a variety of causes, and a given cause may have several effects. If the symptoms persist, and the cause can be discovered, it is the cause that must be dealt with if health is to be restored. At this level, the critics of the treatment of symptoms are correct.

For a good many years now eco-

Dr. Carson has written and taught extensively, specializing in American intellectual history. He is the author of several books and is working at present on A Basic History of the United States to be published by Western Goals, Inc.

nomic "doctors"—whether they be economists, politicians, journalists, or soothsayers—have been treating symptoms rather than the disorders. They have been prescribing for the effects, not the causes. Unemployment is a symptom, not the disorder. High interest rates are an effect, not a cause. General price rises are effects of something else, not ailments to be treated. So it goes with all the indices which have been contrived in the effort to measure economic activity or inactivity. They are at best only symptoms which may signify some disorder.

Medically, the worst aspect of treating symptoms is that it may silence the signal, so to speak, without getting at the source of the trouble. Something analogous to this may happen in economic activity as well. For example, interest rates may be lowered, temporarily, at least, by increasing the money supply; this not only silences the signal but also sets the stage for even higher interest rates later.

Intervention Damages the Market

The political treatment of economic activity or inactivity has consequences and causes damages for which there are few medical parallels. Except for the possibility of taking political action to allay economic symptoms and the tendency of treating symptoms to obscure the sources of the difficulty, there may not be any. An economy is hardly analogous to the human body. It is not naturally subject to ills for which there are specific political remedies. An economy consists of those arrangements by which production and trade are conducted. It is economical in those ways and to the extent that those goods which are most wanted are produced and provided with the least expenditure of the scarce elements of production. Theory now demonstrates and experience tends to show that the constructive activities of production and the social relations involved in exchanges are most effective economically when they are freely and voluntarily done.

These last points can be stated more strongly in a different way. Force is anathema to economy. To put it in medical terms, an economy is *allergic* to coercion. There are all sorts of unwanted side effects when compulsion is intruded into the personal and social relationships by which production and trade are carried on. It inhibits exchanges. It upsets the balance between supply and demand. It interferes with production by arousing resentments among the producers and gets in the way of their full use of their faculties to productive ends. It interrupts the smooth functioning of the market in facilitating exchanges, in signaling what is most wanted, and in adjusting to the continual changes occurring within an economy. Coercion, whether it be compulsion, force, violence, intimidation, fraud, deceit, theft, confiscation, trespass, slavery, or involuntary servitude, is disruptive of human efforts to carry on their constructive activities economically.

The Role of Government

One of the basic functions of government is to prevent the use of coercion in constructive productive activities and in the distributive activities of the market. It does so most broadly by maintaining the peace. More particularly, it may do so by defining property, settling disputes, enforcing voluntarily entered into agreements, prohibiting the use of force and fraud or compulsory labor, and restraining or punishing offenders. To the end that they may effectively perform these functions governments are granted a monopoly of the use of force within their respective jurisdictions. (That states the principle, of course, to which there may well be exceptions, such as, the right of self-defense, the prerogative of parents to restrain and punish children, within limits, and the like.) The task of government in these matters is fundamentally defensive.

The exclusion of force from production and the market, then, is a political, not an economic, problem. Ordinarily, it is a problem of justice, not of equity. That is, it is ordinarily a problem of protecting the rights of those who produce and exchange from trespass upon them. In the absence of force, those who produce may keep their production, or exchange such portion of it as they will. In their exchanges they receive such as others are willing to offer them. That is the equity of the market. In these circumstances, too, an economy performs as well or as ill as those who work and exchange within it. Any problems that might be described as economic are those of individuals and groups, not something attributable to "the economy."

Market Signals

An economy sends signals, so to speak; it does not have symptoms of disorder. If the price of some good rises, this signals the possibility of profit for producers. If interest rates rise, that is a signal to investors to become lenders in the market. If interest rates fall, that may be a signal to shift into other areas. If wages fall in some field, that may be taken as a signal to learn a different skill. Of course, interpreting the meaning of the signals of the market is not so simple as that, but the examples are meant to show the kinds of signals that the market sends. They are signals, as I say, not symptoms, and there is no political medicine which properly applies to them.

But enough of signals, symptoms, and medicine. My purpose for discussing them was to lay the groundwork for establishing that the welfare state is in crisis. To do that, I wanted to make clear the character of an economy and to distinguish it from government. It is important to understand that an economy, *per se,* cannot malfunction. It is equally important to grasp the fact that force disrupts the operation of an economy. For example, when signals from the market are interpreted as symptoms of disorder and government intervenes so as to alter signals, this disrupts economic activity rather than effecting a cure from some imaginary economic disease.

The matter goes much deeper than government's tampering with the economy to provide symptomatic relief from some economic signal, however. The long-term intervention in the United States (and many other countries) has a much more thoroughgoing animus than that and is a much more powerful current running against the tide of economy. It is true that once the basic instruments of the welfare state were in place, politicians and their economic advisers have often talked as if all that would be needed to keep the economy moving would be minor adjustments. But the thrust of the welfare state is against economy; it is animated by an anti-economic idea. It substitutes political goals for the rules of economy. By so doing it disrupts economy progressively and tends to produce an endemic crisis.

The impact of welfare state intervention can be most clearly seen in the market, though it extends outward into every aspect of economy. In essence, the market is the place where we exchange the excess of our produce for those amenities of life which either we do not own or produce at all or else not in sufficient quantity. Or, to put it in precise humane terms, the market is the place where we *adjust* our production to our wants. There are other ways to describe the function of the market, of course, such as, that it makes possible the division of labor by which we are enabled to produce and have more. But since adjustment is the key to the disruptive impact of intervention let us focus our attention on that.

Each Party Gains in a Voluntary Exchange

The principle of trade in the market is *quid pro quo.* It is also the most basic equity in economics. It is the balance wheel in an economy. On the face of it, *quid pro quo* doesn't say anything much. The Latin phrase means, literally, "something for something," connotes "one thing in return for another," and it may be rendered as "tit for tat." Yet it is the essence of trade. Without something for something, no exchange has occurred; with it, a trade has been consummated.

It is singularly easy to misunderstand the nature of the equity involved in trade. It is quite plausible to suppose that the equity consists in the equal value of the goods traded for one another. On reflection, however, it should be clear that if both parties to a trade valued the goods equally there would be no exchange. On the contrary, what makes for trade is that each party values what he receives more highly than what he gives up in the trade. The equity consists in the advantage which each party receives, not in some sort of equality supposed to be in the goods traded. Courts have long held that in private exchanges where both parties are competent to contract, are the rightful owners of the goods they offer, and there is no force or deceit involved, a sale can be made, regardless of the amount of the consideration received by either party. All that matters, in such circumstances, is that there was something for something. That is in accord with the principle of *quid pro quo*.

This principle enables the market to function effectively; it allows prices to adjust to supply and demand, wages to fluctuate as employment conditions change, and assists producers with signals about what is most wanted. It leaves decisions of worth and value to individuals who are in the best situation to determine them. The market can be cleared of excess goods; employment can be as full as there are people willing to work for what others are willing to pay; production can be adjusted to wants.

The Welfare State Idea

The welfare state is animated by a different idea; it is an attempt to substitute a different rule for *quid pro quo* in the economy. The moving idea of the welfare state is *social justice*. Undergirding the notion of social justice, or sustaining it, is the idea of *distributive equality*. But the equality of the welfare state is not individual equality. It is *social* justice, not individual justice, equity, or equality. More precisely, it is class or group equality, and within that framework, individuals may be supposed to obtain some sort of equality with others of their class. Examples of this sort of equality can be most easily recognized in the pay scales of labor unions and government workers. Workers do not receive equal pay, of course, but within their particular classifications they tend to be paid at an equal rate. The "equal pay for equal work" slogan makes such sense as it does within this framework. It is really a call for equal pay for all in the same job class or classification, to which the appeal to "work" is largely a smokescreen.

The welfare state tends to substitute something for everybody for the *quid pro quo* something for something of the market. More directly, the welfare state attempts to provide something (distributive equality) for every class, order, grouping, and category of people. Quite often, it provides something for nothing. It is a political, not an economic, concept. The welfare state continually upsets the tensioned balances within an economy: the balance between supply and demand, between production and consumption, between work and reward, between buyer and seller, between the money supply and prices, and between foreign and domestic markets. It does so by progressively introducing force into the economy for political ends. Coercion is disruptive to economy in any case, as already pointed out, but when it is pervasively applied for political ends, it has a corrosive effect ameliorated only by its regularity.

The Market Is Disrupted, Not Entirely Displaced

The welfare state in the United States has not entirely displaced the market, nor the other major elements in the economy. Even *quid pro quo* is still in operation, though its workings have been progressively disrupted. The welfare state is more like a vast overlay of interventions on the market and economy than the displacement of it. They burden the economy, distort it, disrupt it, but they do not replace it. The interventions produce episodic disorders as well as crises. Some of these have been called by such varied names as recessions, inflation, economic stagnation, even stagflation, in recent decades. They are usually popularly described as if they were economic in origin. Actually, they are the products of government intervention. Each intervention, whether it be increasing of the money supply, raising of the minimum wage, price controls, production controls, redistributionist programs of a more direct kind, or what not, produces its own bitter fruit of price rises, unemployment, surpluses, shortages, and so on.

On the surface, at least, the welfare state appeared to be working fairly well for much of the 1950s and 1960s. It was generally conceded that prosperity was widespread, and some commentators even became publicly concerned about the dangers of affluence. The prosperity, however, was despite the welfare state intervention, not because of it. There were special conditions which help to explain the prosperity.

Mitigating Factors

First and foremost, capital investment and technological innovation overcame much of the drag of the welfare state. Increased productivity kept prices from rising nearly as much as might have been expected from the increases in the money supply. That is not to say that capital investment and technological innovation could have done the job alone. While the federal government had deficits, they were not nearly so large then as they have become since. Interest rates generally were low during most of the period.

The United States had acquired vast holdings of gold in the 1930s, and this was being used, and nearly used up, in defending the dollar around the world. This was so effective in supporting the dollar that it was only in the late 1960s that the pressure shifted to silver, which was legal tender domestically, in the flight from the dollar. At that point, the issuance of silver certificates was discontinued, and silver coins ceased to be used as a medium of exchange. But the dollar had been reinforced by precious metals to that point.

Nor should the role of human adaptation in overcoming the disruptions, distortions, and drag of the welfare state be discounted. Man is marvelously adaptive in finding ways to survive, and even prosper, in the face of otherwise debilitating government interventions. Americans were somewhat aided in making these adaptations from the late 1940s through the mid-1960s by the removal or reduction of some of the more burdensome restraints and interventions of the New Deal and wartime years. For example, production and price controls were either removed or reduced in both agriculture and industry. The drag of the welfare state was there during these years, but much of it was overridden by favorable developments.

A Prolonged Crisis

Since the early 1970s, at the latest, the United States has been in a crisis. It is similar in many respects to those crises which used to be called depressions. It is as severe as most of the depressions in past American history and has lasted longer than the generality of them. But the word has gone out of style since the beginning of the New Deal, out of deference, it may be, to the claims that the legislation of the early New Deal had banished depressions once and for all. (Of course, the Federal Reserve system, which was passed much earlier, was supposed to prevent depressions, but it didn't.) At any rate, we only have recessions nowadays, according to fashionable terminology. But this is not a call for the revival of the word "depression" nor a brief for the use of such words as "recession." At best, they describe symptoms, not causes.

To call the present condition a crisis would be no better, if the word were left to stand alone. It becomes much more precise, however, when it is labeled the crisis of the welfare state. Moreover, the cause is identified and named. It is the welfare state. More specifically, the cause of the crisis is those government interventions by which the welfare state is established and grows and expands. The crisis is reached when the interventions so unbalance and disrupt the economy that it is, in effect, at least extensively paralyzed. To put it another way, the crisis of the welfare state occurs when the social justice modes of something-for-every-class and something-for-nothing go so far in displacing the market's something-for-something principle that the market can no longer function effectively and the economy is debilitated.

Let me not suggest, however, even by implication, that a crisis of the welfare state occurs at some precise identifiable point which could be pinpointed and be expected to recur again and again at that point. The crisis of the welfare state is ultimately qualitative, not quantitative. The welfare state establishes a vast network of dependencies of the people upon it, assumes responsibility for their well-being, and arouses expectations that it will deliver. In consequence, many people are unaccustomed to taking the initiative and making the adaptations which might enable them to survive and prosper. For example, they may not move to new locations to find work or enter new fields of endeavor when old ones promise little for the future. Also, interventions tend to mix up such signals as the market can send, and many people become frustrated with the continual fluctuations which accompany government interference. These are qualitative matters depending upon the wills of people, are not measurable, and hence are unpredictable. In any case, the symptomatic character of indices deduced from statistics makes them unreliable predictors of anything.

Cities in Crisis

Probably, the most dramatic examples of the crisis of the welfare state have been the cities for the past decade or so. There is good reason why this should be so. In the first place, large cities are concentrations of people that are most dependent upon the market in a country. In the second place, the welfare state is more firmly and deeply established in what are called the inner cities than anywhere else.

Trade is the life blood of cities. They have almost always arisen as trading centers. Their origins are still apparent in the fact that most large cities to this day are located on navigable streams, on lakes, near the confluence of rivers, or are seaports. The first large cities in America were Boston, New York, Philadelphia, and Charleston, all port cities. In time, most cities have become manufacturing centers, transportation centers, and centers of wealth. They drew goods and workers from near and far, shipped goods to the surrounding hinterland and often to the far corners of the world.

If the *quid pro quo* which undergirded the relationship between these cities and the trading areas they served be ignored or downgraded, it is easy enough to see how they may have provided the model in the minds of reformers for the welfare state. After all, what is the welfare state but a great grid extending outward from a central city? Except, of course, force has been substituted for voluntary exchange; wealth is drawn inward by taxation, and it is distributed on the basis of political favor rather than an economic *quid pro quo*.

At any rate, welfarists have been drawn to the great central cities much as moths are attracted to a flame. Concentrated wealth is the prime ingredient of the welfare state, and the cities were the places where it was mainly concentrated. Cities would have been drastically harmed by the welfare state anyway, for their lifeblood is trade, and welfarism is an assault on the market. But they have borne the brunt of it in two other ways. In the first place, much of the wealth which financed the welfare state has been drawn from the cities. In the second place, many city governments became the most profligate distributors of welfare.

In the past several decades central cities have drawn welfare recipients much as they were once a magnet for workers. Many of the factories, commercial institutions, and service institutions have left the inner cities as they became welfare enclaves. Far from being the centers of wealth they once were, they have become political fiefdoms of mendicant politicians seeking federal and state grants to stay afloat. Their crises are the crisis of the welfare state writ large.

The Crisis Spreads to Outlying Areas and Other Lands

But the crisis of the welfare state is by no means restricted to the inner cities; the whole country (and, for that matter, much of the rest of the world) has been in its grip for the past decade or longer. It is a crisis which began to beset us around 1970. It has had some ups and downs since that time, but it persisted throughout the 1970s and is thus far a fixture of the 1980s. The signs—symptoms, if you will—of the crisis are: the declining value of the dollar, wildly fluctuating interest rates, unbalanced budgets, mounting deficits, the bear market for stocks (interrupted from time to time by mini-crashes and mini-bulls), unemployment, rising prices, stagnation in productivity, imbalances in foreign trade, and many others. Economic analysis can show that these symptoms are effects of welfare state interventions and the inflexibilities they brought with them. Historical evidence points to their cause as the massive intrusions which immediately preceded their onset.

The last great cycle of government intervention before the onset of the crisis of the welfare state came in mid-1960s. It came during the Johnson Administration, and many of the crucial acts came in 1965, when President Lyndon Johnson was fresh from his landslide victory over Goldwater. "A wide-open legislative road stretched before the Great Society programs," as one history has described it. "Congress poured out a flood of legislation, comparable only to the output of the New Dealers in the Hundred Days Congress of 1933. Fiscal orthodoxy flew out the window and planned deficits came in the door. . . . The Office of Economic Opportunity . . . had its appropriations doubled to nearly $2 billion. Congress granted more than $1 billion to redevelop the gutted hills of Appalachia, and voted a slightly greater amount for aid to elementary and secondary education. . . . A tireless Johnson also prodded the Congress into creating two new Cabinet offices: The Department of Transportation and the Department of Housing and Urban Development (HUD)." (Thomas A. Bailey and David M. Kennedy, *The American Pageant* [Lexington, Mass.: D. C. Heath, 1979, 6th ed.], pp. 885–86.)

But the above only scratches the surface of the new programs inaugurated or old programs bolstered in 1965, some of them involving long-term commitments. The Medicare program was begun in 1965. A general scholarship program for college students got underway. The government got more involved in health services with enactments for Community Health Services, Mental Health Facilities, and a Heart, Cancer, Stroke Program. A variety of programs to aid in pollution control were authorized or funded. Actually, however, Johnson had not waited until his victory over Goldwater to speed up welfare state activity. In 1964, such acts as the following were passed: Federal Airport Aid, Farm Program, Pesticide Controls, Civil Rights Act, Urban Mass Transit, Truth-in-Securities, Food Stamp, Housing Act, Wilderness Areas, Nurse Training, and so on. The thrust did not end in 1965, but it tapered off after that year, as the Johnson Administration became more and more involved in the Vietnam War.

Interventions of the 1970s

Some of the enactments of the first term of the Nixon Administration contributed substantially to the crisis of the welfare state as well. The Occupational Safety and Health Administration and the Environmental Protection Agency, both authorized in 1970, were major thrusts. The Equal Employment Opportunity Act of 1972 was yet another. Not all this legislation was class legislation. For example, neither

OSHA nor EPA fall clearly in that category. But it was all welfarist in character, and most of it has been class legislation. At any rate, the spate of legislation between 1964 and 1972 was more than adequate to burden and restrain even the most resilient economy.

Actually, there are many crises, potential and actual, within the general crisis of the welfare state. Some come and go, occupy center stage for a bit and then are set aside to smoulder. For example, there is the monetary crisis which emerged even before the end of the Johnson Administration. The United States government could no longer support the ever-increasing number of dollars issued to finance the welfare state with its dwindling supplies of precious metals. Therefore, between 1967 and 1971 the government abandoned official support of the dollar with precious metals, as quietly as it could. That did not end the monetary crisis, of course. Thereafter, the dollar "floated," as it is still floating, floated in relation to other currencies, on the one hand, and against durables, among them precious metals, on the other.

The flight from the dollar got underway in earnest after 1970. The most dramatic of the crises resulting from the flight thus far has been the oil, or, more broadly, energy, crisis. There were other factors in the oil crisis, such as OPEC and animosity toward the United States, but the enduring feature has been that oil-exporting countries will no longer accept the dollar in exchange for oil at anything in the vicinity of its former valuation. When the United States ceased to support the dollar with gold in international exchange, it was more or less drastically devalued, nowhere more than in the price of oil.

There is not space here to attempt to trace out all the crisis-producing aspects of the manifold activities of the welfare state. Indeed, a good-sized volume would not provide the space. Suffice it to say that monetary manipulation results in booms and busts, general fluctuations in prices, higher or lower, and can only be offset by unpleasant adjustments. Regulations and controls increase the costs of producing and distributing goods by the cost of every activity of compliance.

Inflexibilities Introduced Which Hinder Adjustments to Change

Administered prices and wages, whether it be minimum wage laws, union-prescribed wage scales, price controls on goods and services, or what not, produce inflexibilities that make changes to meet changing conditions exceedingly difficult, if not impossible. Deficit spending must be made up either by borrowing in the market or increasing the money supply. High taxes take money away from productive purposes to be applied to nonproductive ones. Redistribution disturbs and distorts the market mechanism for distribution.

Long term commitments, such as Social Security, produce crises as they come due. Indeed, the United States government has a large assortment of long-term commitments in its various "insurance" programs which could only be met, if at all, by so flooding the market with paper money that the dollar would be destroyed.

But let us not be drawn away from the main point by an elaboration of intermediate causes of the present crisis. To be aware of the economic consequences of political intervention is no doubt desirable, but to focus on these is to leave the root cause untouched. The root cause is not to be found in any one or combination of intermediate causes. Those who believe this way are still open to the view that by better conceived political manipulations, based on better understandings of economics, the crisis can be averted and things set right. But so long as the root cause continues to produce its effects, the crisis will remain, either potentially or actually.

The root cause is a premise. It is the premise of the welfare state. It is the belief that government can and should intervene in the economy so as to achieve social justice. It is this belief which prompts those in power to alter or supplant the *quid pro quo* of the market—a system of equity for voluntary traders—with a class system of distribution. It is this that burdens the market and economy with every sort of exaction, extraction, regulation, control, distortion, and disruption.

The cause of the present crisis is political, not economic. That means that the cure is political. The cure is for government to confine itself to establishing justice and reducing force, leaving equity to the market in economic matters. That will not solve all problems. Nothing will. But it will restore the responsibility for wrestling with them to the individuals and voluntary groups who are best qualified to deal with them. When that is done, the economy will function as well or as poorly as the people who operate within it.

IDEAS ON LIBERTY

Charles Dickens

EVERY man, however obscure, however removed from the general recognition, is one of a group of men impressible for good, and impressible for evil, and it is the nature of things that he cannot really improve himself without in some degree improving other men.

Bill Anderson

The Virtues of the Free Economy

IT IS FITTING, I believe, that this 1982 meeting of the Mont Pelerin Society be held in West Berlin, for it is in this place that the realities and ironies of the free economy and collectivism stand as stark and clear as the *Schandmauer*, the oppressive Wall of Shame that surrounds this free city in a sea of totalitarianism. If we are to present the case of the superiority of capitalism over collectivism, this is as good a place as any to begin.

Were I a lawyer presenting the case of economic freedom, I would be tempted to use Berlin as my example. After all, the good economic fortune of West Berliners is well-known, especially by East Berliners who have been kept from the western sector of their city by the imposing barrier of concrete, barbed wire, land mines and machine guns for longer than twenty years. In the free West Berlin, people move at liberty throughout the city; in communist East Berlin, the *Bereitschaftspolizei*, the civil police, harass and intimidate citizens at will. The West Berliner's income is higher than that of his eastern counterpart, whose wages, while the highest in the communist bloc nations, would place him below the poverty line in the West.

Mr. Anderson is a teacher of social studies at Rossville, Georgia, Junior High School. This article is published by permission from his prize-winning essay in the 1982 Olive W. Garvey Essay Competition in cooperation with The Mont Pelerin Society.

There is no question that West Berliners are freer, wealthier and happier than their eastern counterparts.

Western Intellectuals Persist in the Denigration of Capitalism

But the minds of men are confused and muddled on the subject of economic freedom. The western world in the last two centuries has been a showcase for the virtues of economic freedom, yet, as theologian Michael Novak points out, "Few themes are more common in Western intellectual history than the denigration of capitalism."[1] George Gilder, in his perceptive *Wealth and Poverty*, notes with sadness that many who give intellectual support to free enterprise do so not because they agree with its ethos (which they see as morally bankrupt), but simply for utilitarian reasons: it creates more wealth than does collectivism.[2]

Yet, if capitalism is to continue to be a vibrant part of the world order, it must be seen as having virtues beyond its immense productive capacities. Those who wish to enlist economic freedom in the quest for human progress, for justice, for an end to world hunger, for freedom itself, must see capitalism not only as an efficient dispensary for human greed, but basically as a conduit for moral actions. Capitalism is an economic way of life that can help promote not only material well-being, but also spiritual well-being.

At the present time, however, people—even many West Berliners—are abandoning the road to economic freedom and supporting, instead, the ethos of collectivism as they seek values they deem worth owning. But such a road, Walter Lippmann wrote, "leads down to the abyss of tyranny, impoverishment and general war."[3] It is the purpose of this essay to examine this western abandonment of capitalism and to show that the alternative to collectivism, the free economy, is, indeed, a worthy and moral choice by individuals and by nations.

The Paradox of Freedom

The free economy is a study in paradox. Persons vote against it at the polls and vote for it with their dollars. Collectivist governments place it at the top of their enemies lists, yet turn to it to help cure their economic ills.[4] Clergymen denounce the capitalist spirit as immoral, yet the very foundation of the free market is dependent upon what Novak calls "the exercise of moral character of certain sorts."[5] The free market seems to have become a social prostitute: people of all income, education and cultural levels denounce it publicly for its alleged sins while at the same time seeking it in times of economic need.

Perhaps this is not surprising. After all, the intellectual and legal basis of capitalism—that the individual is free, has the ability (and responsibility) to make moral choices, and has certain rights that cannot be pre-empted by his government—runs counter to the deeply-held tenets of pantheistic traditional thought that have ruled human minds since the beginnings of civilization. At the heart of traditional thinking, whether or not it be articulated by a Plato, a Confucius, a Rousseau, a Castro or a Mao, is the contention that one's identity begins not with himself but rather with his community, his guild, his tribe, his predetermined social class, or, in modern terms, his state.[6]

While it is true that Christianity (and especially the legacy of Protestantism) has undermined traditional thought—and gave spark to the rise of capitalism—the communal ideology of pantheism, with its emphasis on "aristocracy," social order and varying rights and privileges to be granted to persons of different castes, became officially mixed with the Christian religion in the Middle Ages. Nor did the Protestant Reformation and its resulting doctrines instantly change the long-held conception of "superiors" and "inferiors" in the social order.[7]

The superiors included the clergy, the university professors, royalty, political figures and soldiers of high rank; the inferiors were the serfs, the merchants (who were especially distrusted) and other townspeople born of less than nobility. As one can imagine, such a "moral" order was more than popular with the upper classes, for along with being the natural heirs to leadership over the masses, they were free to impose their "superior" values upon their subjects, and that meant sumptuary laws and thousands of rules governing business practices.[8]

> The free economy is a study in paradox. Persons vote against it at the polls and vote for it with their dollars.

The historian Arthur M. Schlesinger Jr. certainly showed an affinity for the pre-capitalist structures when he wrote of mercantilist England, "Power was held to imply responsibility, and all classes were to be brought together in harmonious union by a sense of reciprocal obligation."[9] Yet, as demonstrated by the numerous peasant uprisings that periodically threatened the foundation of the feudal order, it is clear that the masses did not share Schlesinger's enthusiasm for their plight. And well they did feel discontent; their lot was a most miserable one. The lower classes were as poverty-stricken then as the poorest villagers in destitute Third World nations today.

The vast number of regulations restricting price, supply, manufacturing procedures and—above all—competition, served as effective barriers to limiting economic growth. Only the nobility could be wealthy; after all, believed the superiors, wealth was fixed and could only be divided, not expanded. It was unthinkable for one of a lesser social order to gain wealth. So when it came to gaining riches in the old world, "the worldly order," wrote Lippmann, "was to be predatory."[10] Neighbor plundered neighbor, city plundered city and nations constantly plundered nations.

It is of little wonder, then, that the aristocratic upper classes in post-mercantilist Europe neither appreciated nor understood the new capitalist economic and social revolution. After all, as one grasps when reading *The Wealth of Nations*, Adam Smith developed the concept of Natural Liberty precisely for the benefit of the poor, not the rich. The aristocrats could not comprehend the fact, as Lippmann put it, "that the Golden Rule was economically sound."[11] They could not envision the self-interest of the merchant being freely channeled to serve others, nor could they accept the merchant's gaining not only wealth but social prestige as well. The Industrial Revolution, in reality, was a revolution of the common man, and those who had once set the public agenda were left behind in democratic capitalism's wake.

And despite the vast increase of wealth and power capitalism has brought to the western world, and despite the great steps that have been made in eliminating the once-common poverty in the industrial nations, the free market is still an anathema to many of those outside the business realm—the New Class, as Kristol calls them—who seek to determine the "social agenda." These people are hostile to business, but the reason for their hatred, in my opinion, has little to do with social and economic inequalities that exist within our society. After all, the traditional societies for which many of capitalism's critics share an affinity are often wretchedly poor with inequality the norm. As Kristol has noted, the reason for their contempt of the free market is the lack of social and political power the liberal, individualistic capitalistic order gives to them.[12] Within a society that permits a free market, power lies within the market itself, and "is dispersed among so much of [the] population rather than concentrated solely in a governing elite."[13]

Novak, commenting upon the hostility many clergymen seem to hold toward capitalism, writes:

> In traditional societies, church leaders (whether in Rome or in Geneva) were able to impose their own values on the entire civil society. It is difficult for church leaders to play such a role within a dif-

ferentiated society. Thus there is often a secret hankering, a lingering nostalgia, for a planned society that would once again permit church leaders to be in alliance with civil leaders in suffusing an entire society with their values. This new Constantinianism appears today as socialism in totalitarian states, and as statism in mixed economies.[14]

Where inequality before the law prevails, so prevails the specter of despotism, of tyranny, of poverty, and loss of freedom.

Democracy in the Market

Critics of the capitalist system, especially those who might share the paternalistic biases of Kristol's "New Class," simply are not impressed with the democracy inherent within a market system. The aristocracy never had confidence in democratic institutions, especially during the pre-capitalist era; their descendants—though they may espouse a belief in democratic equality—have as little confidence in free choice as their forebears. For when they speak of equality, they talk not of a state of equality under law, but rather a state of equality *brought about* by the law. Their religion demands an equality of results to be administered by a governing elite.

Such a concept of law—that it restrain some and unleash others—is rooted not in the spirit of equality manifest by the rise of 19th-century liberalism, but rather in the despotic mentality of ancient tribalism. Therefore, the modern results of a legal system of equality by coercion—including progressive tax rates, transfer payments, housing subsidies, food stamps and other welfare programs, or the brutal results of collectivism seen in the past 50 years in the Soviet Union and Asia—reflect not some sort of advanced social compassion, but rather a mental leap backward into an age of monarchs who thought themselves to rule by divine fiat.[15] And such a mentality, it needs to be stressed, mutually excludes the liberal view of equality before the law. For where inequality before the law prevails, so prevails the specter of despotism, of tyranny, of poverty, and loss of personal freedom.

Henry Hazlitt, Gilder, Kristol and others have intelligently argued that government poverty programs based on legal inequality actually retard potential economic gains poor persons can make. What they have not pointed out, however, is the link between today's agenda of statism and the paternalistic ethos of ancient times. And it is here that nations can learn from the past, for it is the indisputable fact of history that legal inequality, enforced economic isolation (called self-sufficiency) and the throttling of the free market leads not to the desired ends of justice and prosperity, but to the reverse. It has only been the practice of free division of labor, free markets, and equality before the law that has led to freedom and economic growth. It has long been the contention of traditional man that he must choose between liberty and bread; the experience of freedom has demonstrated the opposite. Liberty leads to more bread, and much else besides.

Ultimately, it is both the liberty and prosperity inherent in the democratic capitalist order that brings those grounded in ancient ideals of society to distrust of the free market. For the liberty of this order permits those who once labored under the domination of despots to govern themselves, while the prosperity brought about by the free market system allows those who once were desperately poor to support themselves and not be dependent upon the paternalistic whims of the aristocracy. Lippmann once commented about those who seek, in effect, the older order:

> . . . the only instrument of progress in which they have faith is the coercive agency of government. They can imagine no alternative, nor can they remember how much of what they cherish as progressive has come by emancipation from political dominion, by the limitation of power, by the release of personal energy from authority and collective coercion.[16]

And it was Frederic Bastiat who so eloquently predicted the results in store for those who seek coercion under the guise of freedom:

> Capital, under the impact of such a doctrine, will hide, flee, be destroyed. And what will become, then, of the workers, those workers for whom you profess an affection so deep and sincere but so unenlightened? Will they be better fed when agricultural production is stopped? Will they be better dressed when no one dares build a factory? Will they have more employment when capital will have disappeared?[17]

Giving and Receiving

One who gives is held in far greater esteem than one who receives, and it is widely believed by those embracing traditional views that capitalism is simply the economy of receiving; that is, the poor labor and the rich receive. Hence the view, articulated by John C. Bennett, president emeritus of Union Theological Seminary, that the free economy, if not altered by forces of government, is "morally intolerable."[18]

Economic freedom as demonstrated by two centuries of unparalleled fiscal growth, has given those nations that practice it wealth that far exceeds even the richest monarchies of ancient times. And yet, the spirit of economic freedom is seen by critics as just "the unguided lust of the businessman for profit."[19] Schlesinger, an outspoken advocate of the planned economy, describes the philosophy of free enterprise as an anarchic creed of "everyone for himself and the devil take the hindmost."[20] And Ronald J. Sider, author of *Rich Christians in an Age of Hunger*, dismisses capitalistic economic growth as simply the product of covetousness.

> One cannot read the parable of the rich fool [in the New Testament] without thinking of our own society. We madly multiply more sophisticated gadgets, larger and taller buildings and faster means of transportation not because such things truly enrich our lives but because we are driven by an obsession for more and more. Covetousness—a striving for more and more material possessions—has become a cardinal vice of Western civilization.[21]

Such charges—and they are legion—bring one to ask obvious questions, and they are: Have the vast improvements in the material quality of life, life-saving drugs, mass education, the elimination of famine, the breaking down of structures that once enslaved persons of little means and the concept of individual liberty simply arisen from greed, from covetousness, from the desire to harm one's neighbor? Have the economic gains made in the past two hundred years by the descendants of those once legally bound as serfs simply been a moral blight on history?

I leave the reader of this essay to answer those questions for himself. But my point is this: Capitalism has brought vast economic improvements to nations practicing it; that is not in dispute. However, if the free market order is seen by a majority of men—and especially those who have the power to set social agendas—as a license for greed, decadence, and moral bankruptcy, then nations will continue their slide toward collectivism and statism and what is left of the free market will disappear into the dishonesty, graft and bribery that is the black market.[22]

In establishing moral criteria for judging capitalism, I believe the free market must pass two tests. First, it must be consistent with the principles of the ancient time-honored Golden Rule; second, the society that produces the capitalist system must be a moral one that measures up to certain moral principles.

Living by the Golden Rule

In a predatory economy, the Golden Rule, "Do unto others as you would have them do unto you," cannot be easily practiced. If wealth can be gained only by extraction, then it seems logical to assume that one cannot become rich and simultaneously live by the Golden Rule. Either one steals (and no one likes to be called a thief) or one is poor (which demonstrates why poverty has been held in such esteem in traditional religious thought). Traditional thinking dictates that a society governed by the Golden Rule be poor; it is not difficult to understand, then, why a mind governed by such ideas would interpret the capitalist society as rapacious.

But, as Lippmann, Mises, Gilder and others have articulated, the prosperity of the free market order has developed not as the result of theft, but rather by the forces of mutual cooperation and trust between individuals. Lippmann's thesis of *The Good Society* was that a moral, cooperative society could come about *only* by the practice of free market principles. He wrote:

> All of this [western prosperity] did not happen by some sort of spontaneous enlightenment and upsurge of good will. The characters of men were not suddenly altered .... For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own. It was a great moment, for example, in the long history of conquest, rapine, and oppression when David Hume could say (1742) ... "I shall therefore venture to acknowledge, that, not only as a man, but as a British subject, I pray for the flourishing commerce of Germany, Spain, Italy, and even France itself." It had not occurred to many men before that the Golden Rule was economically sound.[23]

For one to gain wealth in the capitalistic system, notes Gilder, one must first *give*, not receive. "The gifts of advanced capitalism in a monetary economy are called investments .... The gifts will succeed only to the extent that they are altruistic and spring from an understanding of the needs of others."[24] Wrote Mises:

> The capitalist 19th Century—so condemned by its critics as a hundred years of exploitation—was the most peaceful century in human history.

> Wealth can be acquired only by serving the consumers. The capitalists lose their funds as soon as they fail to invest them in those lines in which they satisfy best the demands of the public.[25]

Within such a system of freedom, one is rewarded only if his neighbor is also rewarded. "A" profits only—when voluntary choice prevails—by giving "B" either a product or a service which "B" feels will meet his needs or desires.[26] If this interaction were to cease, the intricate web of cooperation that supports the capitalist system would quickly break down. Retailers would not sell if they could not trust their producers; consumers would not buy if they had no confidence in the products and services available. Investment would not be possible if those with the means to save and invest had neither confidence in nor concern for the future.

As demonstrated by Leonard Read in his 1958 article, "I, Pencil," even the basic products made within the capitalist system involve the cooperation of thousands of persons, even persons who by sight or creed might hate each other. Such is the power of the free market. It is no coincidence, then, as Hans Sennholz points out, that the capitalist 19th Century—so condemned by its critics as a hundred years of exploitation—was the most peaceful century in human history.[27]

The Moral Foundations

When Adam Smith in 1776 laid out his thesis in *The Wealth of Nations*, he envisioned the free market order to arise not from a people controlled by avarice, greed and ill-will, but rather from a society in which moral values were considered to be important, where creativity, sympathy, thrift and the postponing of present gratification for future reward were upheld as virtuous. Such an order had already arisen in Puritan New England, where the virtues so vital to the establishment of a growing free market had become the basis of the region that gave birth to Yankee Ingenuity.

> Puritanism gave the pursuit of such interests (work, thrift and enterprise) divine sanction and showed that this working of divine will through an individual's daily work could be advantageous to society at large . . . . It was because the Puritan . . . . was satisfied to postpone or delay his gratification, that capital accumulation was made possible and that investment leading to new kinds of productivity emerged.[28]

Conversely, one might add, the societies which are predatory and show little of the moral virtues as have been described, are also societies that show little or no economic promise. For as Novak has so eloquently stated, capitalism is not the end result of materialism. Rather, materialism—that is the insatiable desire for instant material gratification—works against the free market. He notes:

> Sustained economic growth does not consist solely in material abundance; it springs from and it continues to demand the exercise of moral character of certain sorts. Should such character disappear, so would sustained economic growth. A hedonistic, narcissistic culture is not likely to invest in its own future or to make the necessary sacrifices for its own posterity.[29]

Outstanding Economic Growth a Consequence of Freedom

Despite the fact that breathtaking economic growth has occurred for more than 200 years, those two centuries, when placed in the context of the millennia of human history, are but a blink of an eye. The rise in the living standards of men once destined to live in squalor and oppression has come, perhaps too quickly for most who have participated in or have been caught up in the capitalist order. Men have profited greatly from the free economy, but few have ever understood why this sudden increase in prosperity even occurred. Thus, men, who are inclined to follow the traditional philosophies so firmly etched in their minds, easily fall prey to those who would offer them coercion and collectivism as the road to an even better life.

> The free economy promotes cooperation instead of conflict; it encourages peace instead of war.

But the genie of freedom has been allowed to escape, and men, even while not understanding fully how freedom has given them economic opportunity, have still tasted of its fruits. Because of the phenomenon of individual freedom, the shackles that bound the serfs—and even their oppressive monarchs—in the pre-capitalist era have, at least, been temporarily discarded. Therefore, men can dream of a better life where their ancestors could only accept the poverty of their day.

The experience of the free economy leaves one both optimistic and pessimistic at the same time. One is optimistic, because it has been demonstrated for 200 years that freedom works, brings a better life to all, and is not a force to be feared. But one is also pessimistic, because so many have failed to understand the virtues of the free economy and, therefore, turn to collectivism and statism in hopes that coercion will allow them to fulfill their dreams.

The free economy allows men to be virtuous, to practice trust and honesty and be rewarded for it, to bestow a good life for their fellows, to help rid the world of plagues, hunger and other blights that prey upon the weakest of those in our midst. It promotes cooperation instead of conflict; it encourages peace instead of war.

When Lippmann exhorted his peers to turn from the drive to statism in the 1930s, he was jeered and declared by many of his fellow "liberals" to be a "reactionary." And, yet, many of his insights were correct, many of his predictions of coming wars accurate. They are true today as well.

The message of Lippmann, and the message 200 years of liberty has proclaimed is this: the Good Society, one in which men can strive for justice, virtue and a better life for all can come about only by the practice which "preserves and strives to perfect the freedom of the market."[30]

This is not a utopian dream, for those who believe in utopia believe also that man can be coerced into perfection. I cannot accept the idea that somehow man in the world as we know it will lose his willingness to sin. But while man is in his imperfect state, the free economy will help him to create a more prosperous, a more tolerant, a more just, and a more virtuous world.

—FOOTNOTES—

[1]Michael Novak, "The Economic System: The Evangelical Basis of a Social Market Economy," *The Review of Politics*, Vol. 43 (July, 1981), p. 355.

[2]George Gilder, *Wealth and Poverty* (New York, 1981), p. 4.

[3]Walter Lippmann, *The Good Society* (Boston, 1937), p. 204.

[4]Lenin's New Economic Policy of 1923, Stalin's introduction of differential wages and other "capitalist" practices in 1931, and the encouragement of small, private enterprises in present-day Communist China are notable examples of despotic, collectivist governments seeking help from the free market.

[5]Novak, p. 365.

[6]J. Kautz expressed the traditionalist ideals in his 1860 work *Die geschichtliche Entwickelung der Nationökonomik* when he described the pantheistic views of Hindu India. "Above all," wrote Kautz, "as a controlling fundamental of the entire social and economic theory of India can be placed the esthetic self-denial and renunciation, the unreserved recognition and glorification of absolute political despotism, the denial of the personal worth of man. . . ."

[7]The Calvinistic *Westminster Confession of Faith*, composed from 1643–1648, deals with the Fifth Commandment (Honor your father and mother) by extending the concept of parents to include social "superiors" as well.

[8]For example, during the French monarchy from 1666 until 1730 the French textile industry faced a mountain of regulations contained in four quarto volumes of 2200 pages and three supplementary volumes.

[9]Arthur M. Schlesinger, Jr., "Neo-Conservatism and the Class Struggle," *The Wall Street Journal*, June 2, 1981, p. 30.

[10]Lippmann, p. 194.

[11]*Ibid.*

[12]Irving Kristol, *Two Cheers for Capitalism* (New York, 1978), p. 28.

[13]Robert Heilbroner, quoted from *Time*, April 21, 1980, "Is Capitalism Working?" Heilbroner is an advocate of the planned society.

[14]Novak, *Toward a Theology of the Corporation* (Washington, D.C., 1981), pp. 11-12.

[15]See "Inside North Korea, Marxism's First 'Monarchy,' " *Reader's Digest*, Feb., 1982.

[16]Lippmann, p. 5.

[17]Quoted in William H. Peterson, "Creating a 'Negative-Sum' Society," *Business Week*, November 16, 1981, p. 32.

[18]John C. Bennett, "Reaganethics," *Christianity and Crisis*, December 14, 1981, p. 339.

[19]"The New Deal in Review, 1936–1940," *The New Republic*, 102 (May 20, 1940), p. 707.

[20]Schlesinger, p. 30.

[21]Ronald J. Sider, *Rich Christians in an Age of Hunger* (Downers Grove, Illinois, 1977), p. 123.

[22]For in-depth looks into how a state-strangled economy invites black market activity, read Antonio Martino, "Measuring Italy's Underground Economy," *Policy Review* (Spring, 1981), and Ken Adelman's description of black market corruption in socialist Tanzania in "The Great Black Hope," *Harper's*, July, 1981.

[23]Lippmann, pp. 193–194.

[24]Gilder, pp. 24, 27.

[25]Ludwig von Mises, *The Anti-Capitalistic Mentality* (South Holland, Illinois, 1972), p. 2.

[26]In a planned society where the state makes economic choices for its citizens, people must "choose," then, whatever the state gives them. Under these conditions, however, the products and services usually leave much to be desired and the result is a bullied, dissatisfied customer.

[27]Hans Sennholz, "Welfare States at War," *The Freeman* (January, 1981).

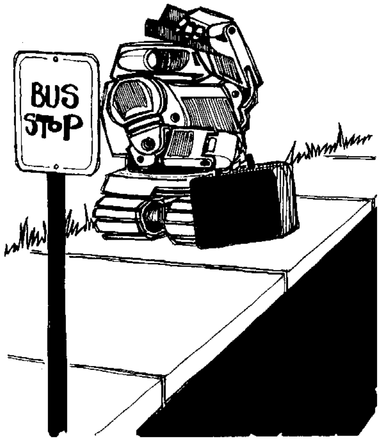
[28]James T. Laney, "The Other Adam Smith," *Economic Review*, October, 1981, p. 28.

[29]Novak, "The Evangelical Basis of a Social Market Economy," pp. 365–366.

[30]Lippmann, p. 207.

Hans F. Sennholz

Workers and Robots



WHEN, shortly after World War II, the first electronic computers were placed into service, they occupied large rooms, contained miles of wire and hundreds of vacuum tubes, and cost many thousands of dollars. Today, a computer with similar capabilities fits on a desk top and, despite rampant inflation, costs less than $1,000. The early computers consumed enough power to drive a locomotive; the modern computer uses less electricity than a television set. Two technological inventions gave rise to this spectacular computer revolution: the transistor and the integrated circuit. They ushered in what the National Academy of Sciences called "the second industrial revolution." It is thoroughly affecting not only the way we communicate, store and use information, but also the very nature of industrial production. It is transforming millions of jobs and changing the skills needed in productive society.

Computer manufacturing is the fastest-growing industry in the United States. In 1980 its sales were estimated at $24 billion and its growth rate was averaging more than 20% per year. It gave us a growing array of computerized consumer goods, such as pocket calculators, digital watches, electronic games, computer toys, and microelectronic timing devices in washing machines and microwave ovens. It provided the automobile industry with computerized engine controls regulating fuel and air intake and ignition timing.

Dr. Sennholz heads the Department of Economics at Grove City College in Pennsylvania. He is a noted writer and lecturer on economic, political and monetary affairs.

Computer technology is applied to every operation of the engine and drive-train as well as to speedometers, clocks, and other dashboard instruments.

Other Uses for Computers

Computers have begun to affect product structuring for many other industries as well, for apparel, food distribution, petroleum, energy, printing, publishing, retailing and transportation. They are invading the halls of government and the offices of banking, insurance, accounting, and the securities industry. They are helping to provide health and welfare services and forcing education to adapt to its new ways. Computers are touching the lives and work habits of people in all trades and professions, of millions of hourly workers and professional engineers, managers, lawyers, doctors, dentists, scientists, writers, editors, historians, economists, and others.

Word processors, which are relatively cheap computers equipped with the capacity to edit text stored electronically in the machine's memory, are finding their way into many offices. An estimated half a million were in operation by 1980, and sales are expected to exceed 200,000 a year by the mid-1980s. We are seeing a new generation of "intelligent" office equipment, such as facsimile machines, which can read printed text and transmit it over telephone lines to other facsimile machines that reproduce the printed text. It is converting more and more information from paper documents to electronic signals that are stored in electronic data banks and transmitted to other banks. It is reshaping the nature of white-collar work.

Computerized machinery is helping engineers to design products and parts thereof on computer screens and then draw up the specifications for manufacturing them. In the production process the computer that designs a part then generates the instructions for the machine that will manufacture it. A new generation of industrial robots, which are flexible computer-controlled arms holding tools, is performing a wide range of complex tasks. In 1980 some 3000 were performing heavy repetitive labor on American assembly lines. By the end of the decade a hundred thousand more versatile robots may be clanking away in shops and factories. Some experts are predicting that more than 50% of all jobs in the American economy may soon be affected by computer-based automation. And the microelectronic "revolution" has barely begun.[1]

Antagonism to the New

Many Americans are painfully afraid of the economic and social consequences of the revolution. They are convinced that the computer technology is responsible for the high rates of unemployment, and that it is bound to get worse with the addition of every new robot. The computer-intensive industries are burdening society with mass unemployment, they lament, which may greatly intensify the social tension and polarization between its productive members and millions of people out of work.

How terrifying! Tools and machines are said to cause unemployment. If it were true it would suggest a simple solution: pass more laws and regulations that restrict or even bar the application of computers. Let's return to the simple ways of the past that made for hard labor and full employment!

Popular hostility toward any type of innovation probably is as old as the first invention. Since the dawn of history it sought to block the way toward economic betterment. Early stonecutters probably objected to the discovery of metal and the casting and forging of a wide assortment of metal tools. The monastic scribes copying ancient manuscripts undoubtedly were alarmed about Johann Gutenberg's first printing press, built in the 1430s. Laborers resented the harnessing of wind and water power, and when steam power appeared on the scene, the use of steam engines. Water carriers regretted the introduction of water pipes, messengers deplored the invention of the telegraph and telephone, and horse breeders and blacksmiths bemoaned the coming of the automobile.[2]

Old ways and habits are always defended by antagonism to the new. But new ideas are difficult to resist for long if they are beneficial to someone. In a free economy with private property in the means of production, eager entrepreneurs are always searching for new tools and machines that make human labor more productive. New inventions may necessitate the development of new skills and proficiencies, and may require more learning and readjustment. But they do not cause unemployment. As they increase the productivity of labor and thereby reduce its costs, the demand for labor in effect tends to rise, which creates more employment opportunities.

"Automated" Water Delivery

The great benefits of "automation" are clearly visible in many examples from the distant past. It is difficult to imagine life in a city of 500,000 people, like New York in 1850, before the days of "automated" water delivery. Several times a day many residents trudged to the nearest public well or cistern where they obtained a small quantity of polluted water which, when mixed with brandy or gin, was presumed to be safe to drink. Women and children, in particular, were carrying barrels of water hundreds of yards to their crowded tenements. Those who could afford the extra expense relied on professional water carriers who, by cart or on foot, delivered water to more affluent homes. Surely, it is no exaggeration that a hundred thousand New Yorkers labored daily to secure a few gallons of water, and that thousands of fully-employed professionals carved out a meager living from the manual delivery of needed supplies.[3]

During the middle of the 19th century, industry was developing cast-iron and steel pipes that came to the market at ever lower prices. Gradually the water system began to change, new techniques and methods were introduced, and modern plumbing came into existence. By the end of the century, some 3.4 million New Yorkers enjoyed an automated delivery system. The water carriers, those toilers of the ages peddling their supplies like luxuries, had disappeared, and the horse-drawn tank wagons hustling through the streets were forgotten. But there were thousands of workers manufacturing plumbing supplies, countless stores and shops handling the supplies, movers and haulers delivering them, and tens of thousands of plumbers fully employed in the task of installing and servicing them.

The "automation" of water delivery not only created many more employment opportunities, but also immeasurably improved the living conditions of millions of people. Surely, it must have been difficult for the water carriers to adjust to the new technology. But in the end, even they benefited from the plumbing revolution.

Triple Benefits for Workers

The American labor market today is in a significant transition that is as beneficial as the plumbing revolution during the second half of the nineteenth century. There are labels for this new era. Some call it the post-industrial society, the high-technology economy, the service economy, the information economy. But no matter how you may call it, it is a new technology that is improving the lives of millions of people as consumers and producers. It is basically and fundamentally transforming the work that needs to be done. In the course of two or three decades direct manufacturing as we know it today, is likely to be restructured completely. Old tasks are disappearing and new opportunities are opening up in high technology.

It is erroneous and misleading to blame the computer technology for the chronic unemployment. The major patterns of joblessness in key manufacturing industries, such as autos, steel and construction, were visible long before the first computer appeared on the scene. There has been unemployment whenever, for any reason, the costs of labor exceeded its usefulness and value in production. Tools and equipment make human labor more productive, they do not cause "technological unemployment." Surely, new tools necessitate the learning of new skills as they make old skills obsolete. They may necessitate the movement of labor from old locations to new locations as economic changes have done from the beginning of time.

To reduce manufacturing costs and make themselves more competitive, manufacturing industries are introducing ever more productive technology. General Motors, for instance, has laid off some 100,000 workers because its cars are not selling. But in the depth of this severe depression, GM has announced plans to purchase 20,000 robots in the next 10 years. It is resorting to a massive infusion of "labor-saving" technology that may affect many of its workers. They will have to learn new skills and fill new positions. Many will have to leave the centers of change for new jobs elsewhere; only skilled technicians and those unwilling or unable to adjust will stay behind.

A Rise in Productivity

To speak of "labor-saving" equipment is to speak exclusively for those workers who need to learn new skills and pursue new opportunities for employment. When seen from the point of view of consumers and the whole society, modern computers raise the productivity of labor and improve working conditions. They increase the supply of goods and raise the levels of living by permitting consumption of more goods. Consumers may choose to buy those goods manufactured with computer assistance or any other items and services.

Wage earners reap triple benefits from the introduction of technological improvements:

1. As the productivity of labor increases wage rates tend to rise. Economists speak of a rise in the marginal utility of every kind of labor, which is the value added to or subtracted from the value of the output by the employment or withdrawal of a worker.
2. Rising labor productivity lifts some unemployed labor whose costs up to now exceeded its usefulness above the threshold of employability, and thus creates new jobs.
3. As consumers, wage earners tend to benefit from the fall in goods prices which the rise in productivity and output tends to bring about.

All workers benefit from the general rise in the productivity of labor. But in the short run some may suffer economic losses from the necessity of retraining and relocating. They may have certain skills that are made obsolete by the technological improvements. Despite the general rise in wage rates they may earn less than before, or be unemployed if they refuse to adjust.

Technological improvements do inflict painful losses on some investors and entrepreneurs. The increase in the quantity of computer equipment tends to lower its marginal productivity, that is, the value added by the application of yet another computer, which tends to lower computer prices. Moreover, old equipment may lose in productivity and value, which will hurt the interests of those investors who, for any reason, fail to keep up with the changes.

Learning New Skills

Technological innovations necessitate adjustments not only by investors and entrepreneurs but also by workers. They all are subject to the dictates of the market where consumers, through their buying or abstention from buying, issue the orders. Consumers also determine the methods of production. In choosing between new Detroit cars or foreign imports, or just a used car, or any other item, consumers implicitly decide the issue of equipment, in particular, the continuing use of old equipment or its replacement by computerized robots.

In a changing market economy all factors of production tend to move toward those uses and locations where they attain their greatest usefulness. They are guided by price which is the consumers' signal of concern and value. Labor is guided by wages and benefits, which are the prices paid for the factor of production, human labor. In an unhampered labor market the adjustments and movements of labor tend to equalize the wages and benefits of the same quality labor throughout the market.

Changes in the market structure always bring about new wage differences that bring forth new labor adjustments. The magnitude of the difference tends to affect directly the speed of adjustment which is a time-consuming process. A wide differential tends to hasten the adjustment, a small difference may retard it.

Retraining Costs

Many personal and institutional factors also enter into the adjustment process. The time and expense required for retraining play an important role. Schooling and training may have made a worker a specialist with special abilities for rendering valuable services. He may have invested effort, time, and money in his training, which the computer technology may have made obsolete. He is facing new expenses for retraining. His decision is likely to be difficult and painful—as all entrepreneurial decisions usually are.

The expenses incurred in retraining vary with the levels of skills that are sought. A professional person with many years of university training would face large expenditures if he were to seek expertise in an entirely different field. An unskilled laborer who acquired his skills in a few hours of on-the-job training, may just need a few hours of instruction for a different job.

The retraining expense made necessary by the computer technology depends entirely on the level of special skill that is sought in the computer market. The professional person would have to seek many years of graduate education, the unskilled laborer a few hours of instruction. If industrial robots actually displace unskilled workers with simple on-the-job training, the retraining expenses should be rather minimal. Employers can be expected to provide the training as they did in the past.

Many companies, in fact, are offering inexpensive retraining programs that provide a possible career path from computer operator upward through programmer, systems designer, and analyst. Some are conducting evening classes for people from all types of background, from 18 to 50 years of age. After some 40 hours of instruction many become computer programmers.[4] But such training may already exceed the demands of readjustment.

Factory workers and clerical personnel may not need to know how the computer works. They must know what the computer can do as it relates to their jobs. This type of training can be imparted anywhere, in school or on the job, to young and old alike. It is commonly known as the fundamentals of data processing, such as files and coding concepts, retrieval and accuracy, which is preparing the individual to manage data bases and building his confidence in the other end of the terminal. Young children and many disadvantaged are learning it,[5] and factory hands, too, can learn it. They merely need to interface and interact with the computer.

Moving to Another Location

Labor adjustment may require more than simple retraining. It may impose the additional expenses of pulling up the family stakes and moving to another location. The worker may have to explore the labor market in other places, perhaps in other states. He may need to seek information provided by the news media, or avail himself of the assistance of private employment agencies serving the desired market. He may have to bear the expenses of this service, which may amount to a few percentage points of his initial wage. And after he has found his desired place of employment he may need to relocate his family at an additional expense.

If he is the proud owner of real property he will have to sell it, probably at depressed prices in a depressed community, and then, in the new location, acquire other property, probably at premium prices in a growing community. Indeed, the economic cost of relocation may be very high. Other costs may make it even more painful. He will have to sever his social bonds with friends and colleagues, with schools, clubs and churches, and turn away from his little world he grew to love. There is always the fear of the unknown which tends to exaggerate the difficulties and aggravate the anxieties. Therefore, he may not choose to adjust and seek relocation. He may decide to resist the market pressures for change and suffer the financial consequences.

In an unhampered labor market the situation is very clear and simple. The technological changes that make certain skills obsolete tend to depress the corresponding wage rates, and thus create a visible difference between the generally rising rates and the specifically depressed rates. This difference then generates the pressures for retraining and relocating.

In a severely hampered labor market, where minimum wage rates prohibit the adjustment and powerful labor unions greatly distort the market, the situation is quite different. The technological changes meet with institutional barriers that prevent wage rate adjustments, and therefore lead to to mass unemployment. The worker with obsolete skills is not free to offer his services at lower rates. He is condemned to be unemployed and cast out of productive society. But when, in desperation, he seeks employment elsewhere he faces wage rates that may be substantially lower than those to which he is accustomed.

The unemployed automobile worker from Detroit who seeks relocation in Texas may be shocked to find the going rate for his level of skills to be one-half of his UAW rate. For him, to seek employment is to submit to lower rates, which do not appear very desirable. Only prolonged unemployment with all its woes and pains may force him to consent to relocation.

The same may be true in the case of retraining. The unemployed automobile worker who becomes a computer programmer outside his union fold, may have to acquiesce to a rate of pay that amounts to much less than his union scale. His new training apparently reduces his pay, which may not nourish his zeal for retraining.

Institutional Barriers

Labor migration from places with lower labor productivity to places with higher productivity may be impeded further by institutional barriers which interventionist governments like to erect. Many states have license and permit requirements that make it painfully difficult for newcomers to enter a given market. There may be lengthy residence requirements or difficult entrance examinations that aim at discouraging out-of-staters. Labor unions endowed with legal privileges and immunities may deny membership to workers from other states and other vocations. And if membership is actually extended, a union invariably discriminates against its "junior" members, that is, newcomers from out of state.

Institutional barriers that render migration most difficult are reinforced by institutional incentives for remaining immobile. Generous unemployment compensation for lengthy periods of time may induce an idle worker to wait for his "recall," rather than search for employment elsewhere. The compensation may be supplemented by other benefits, such as federal foodstamps and tax refunds, various employer exactions, and union aid. And in case some benefits should run out, there is always public assistance to which unskilled workers may get accustomed. It offers a very valuable benefit, "medicaid," that is, free medical services for all family members. With so many powerful disincentives, it is surprising that some workers actually do muster the courage and strength to move to other places with more employment opportunities.

It is said that older people object too much, consult too long, and adventure too little. If this is true, it cannot be expected that many older workers will want to learn new computer skills or relocate in other places. It may be left to the coming generation now playing with computerized toys to achieve the necessary adjustment. In time young people may seize the opportunities rejected by their parents.

Economic Superiority or Technical Efficiency

Technological changes take time. On every level of production, from the manufacturers of the new equipment to its users and their workers, certain difficulties retard the readjustment process. The new process may be shrouded in secrecy or protected by patents. It may face the ignorance or indolence of entrepreneurs, or the lack of skilled labor that can work with the new equipment.

New computers are not applied everywhere as soon as they become available. People do not always trade in their old cars as soon as new models become available, or buy the latest computers when they first appear on the market. They are guided by considerations of scarcity and cost.

Old equipment is not scrapped in the instant new equipment becomes available. Economic calculation provides the data that permits selection of the most appropriate procedure. It searches for economic superiority by comparing the economic profitability of the old, less efficient, and still usable equipment with the profitability of the new, more efficient computer equipment. Technological efficiency and economic superiority are two entirely different things.

The factors that enter such a calculation would include the price of the new computer, the price of "scrap value" that can be realized from the sale of the old equipment, the cost of production per unit of output by the computer, the cost of production by the old equipment, the anticipated future price of the product, the expected useful life of the computer, and the return from competing opportunities for investment. Replacement of old equipment by a new computer would be advantageous only if the savings in production cost by the computer during its expected useful life exceed its own purchase price minus the scrap value of the old equipment, and if this excess is greater than the return from other competing opportunities for investment.

A computer costing $100,000 net, that during its useful life lowers production costs by $100,000, is not economically superior to the old less efficient equipment. It would have to reduce production costs by an additional amount that exceeds the return from competing opportunities for investment.

In periods of rapidly changing computer technology, the useful life of a computer may be very short. Economic calculation may once again ascertain that there is superior equipment that necessitates the scrapping of the old. And again investors and entrepreneurs may be forced to choose between economic superiority and technological efficiency. The choice may be further complicated by changes in market conditions that may result from the changes in the methods of production. Declining costs of production per unit of output, for instance, may lead to lower goods prices, which in turn tend to reduce the value of the equipment that helps to produce the goods. In short, the computer-robot may decline in usefulness and value, which may materially alter the superiority calculation.

Technological Maladjustments

The development and employment of high technology require the outlay of large amounts of capital, which must first be accumulated through corporate profits or individual savings. If, some hundred years ago, new capital had not been available for the automated water delivery in New York City, it simply would have remained a "pipe dream" as it did in many other cities of the world. New capital must be available at a rate that promises a saving in total costs.

This condition also points at the harmful effects of confiscatory taxation and union practices that consume capital rather than create it. In particular, it refutes the popular notion that union pressures for ever higher labor costs bring forth a trend toward more and more industrial automation. Squeezed by new union demands, employers are said to seek refuge in high technology in order to raise productivity and reduce costs. Higher productivity then encourages the unions to demand still higher wages that propel the industrial surge toward unforeseeable productivity.

Oh lucky land of labor unions! It is the fabled land of Aladdin's lamp. Its owner merely rubs the lamp to invoke the friendly genie. Labor unions merely rub employers for higher pay and costlier benefits, and affluent businessmen realize the dream of ever higher levels of living. The fact is that labor unions usually view all labor-saving equipment with great suspicion and seek to prevent its employment through prohibitive labor contracts.

Hidden Costs

Expensive severance pay and generous pensions for "early retirement," or supplementary unemployment benefits paid by employers, greatly discourage the introduction of labor-saving tools and machines. If, nevertheless, an employer chooses to install new equipment, its technological efficiency must be immense in order to justify the accompanying labor expenses. But in many cases the technological efficiency does not suffice for economic superiority, which causes unionized industries to cling to antiquated equipment. American industries with powerful unions, such as steel, automobiles, and construction, are not known for their prompt introduction of the latest high-technology equipment.

It is also conceivable that an employer may resort to some technological changes that in the absence of union coercion would not have been advisable. But this is by no means a laudable union accomplishment. The capital needed for the costly retooling must be withdrawn from other more productive uses. Other industries that were about to acquire more productive equipment are pushed back in the waiting line. They have to be content with old inferior tools and are forced to wait until more capital is accumulated. In the meantime, consumers must pay higher prices than they would have paid in an unhampered market. In other words, the technological improvement necessitated by union coercion constitutes a "maladjustment" of technology, that is, a diversion of funds from more productive to less productive uses. On balance it depresses labor productivity and lowers wage rates.

A Brighter Tomorrow

Despite such obstacles to greater productivity and higher levels of living, the computer revolution affords hope for a brighter economic future for all people. We may at times despair about our political institutions that are feasting on and squandering our economic substance. Governments may be laboring diligently to maintain the status quo by erecting obnoxious barriers to change at every turn. And politicians who are aware that children have no votes may want to burden them with our debts. But the computer revolution, this incredible achievement of American inventors and entrepreneurs, is nourishing an imperturbable faith in a brighter tomorrow.

—FOOTNOTES—

[1]R.W. Bemer, ed., *Computers and Crisis*, Association for Computing Machinery, 1973; also Steve Jobs, "When We Invented the Personal Computer," *Computers and People*, July-August 1981; Clarence C. Walton, "Computers—Fast Instruments and Slow Minds," *Computers and People*, July-August, 1982, p. 7 *et seq.*, September-October, 1982, p. 10 *et seq.*

[2]Sigvard Strandh, *A History of the Machine* (New York: A & W Publisher, Inc., 1979).

[3]Cf. John Duffy, *A History of Public Health in New York City, 1625–1866* (Russell Sage Foundation, 1968), pp. 209, 391; also J. Kennard, "Sanitary Engineering: Water Supply" in *A History of Technology* (Oxford, at the Clarendon Press, 1958), pp. 989 *et seq.*; Robert Ernst, *Immigrant Life in New York City, 1825–1863* (New York: King's Crown Press, Columbia University, 1949), p. 51 *et seq.*; Sigvard Strandh, *ibid.*, p. 214.

[4]R. W. Bemer, *ibid.*, pp. 23–25.

[5]*Ibid.*, pp. 8–15, 59–70.

IDEAS ON LIBERTY

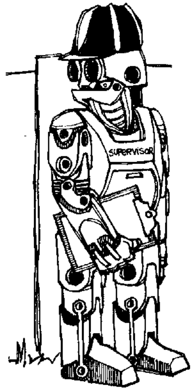
How to Raise Wages

THERE is no other method to make wage rates rise than by investing more capital per worker. More investment of capital means: to give to the laborer more efficient tools. With the aid of better tools and machines, the quantity of the products increases and their quality improves. As the employer consequently will be in a position to obtain from the consumers more for what the employee has produced in one hour of work, he is able—and, by the competition of other employers, forced—to pay a higher price for the man's work.

LUDWIG VON MISES, "The Economic Role of Saving and Capital Goods"

Ernest G. Ross

ROBOT PROTECTIONISM



ROBOTS are nothing special. Oh, they are *wonderful* machines and the world has never seen their likes before. But in an economic sense, that's *all* they are—machines. Consequently, the almost frenetic fears we are witnessing—the fear that robots will have a devastating effect on employment, that they are "taking over" the job market—are ridiculously misplaced. Worse, these fears ignore the economic principles which apply to the introduction of *any* kinds of machines.

Fear of machines is probably as old as the wheel. I can imagine a brief prehistoric conversation which went like this:

"Gee, Ugar," said the first caveman to his friend, "that thing you call a 'wheel' is really amazing, but I'm not sure the tribal council is going to allow it."

"Why in the world not, Grug?" asked the other caveman. "Can't they see that it's helped the tribe immensely? The women can use carts to haul the water, the men to bring back heavier game, we can even carry in big rocks to build walls to fortify our caves against those pesky Neanderthals who keep stealing our flint spears! How can that be bad?"

"Yes, I know you mean well, Ugar. But I doubt that you've noticed all the ramifications. Some of us think that the wheel is making for idle hands. After all, since the wheel makes certain kinds of work easier, some of the people who used to haul things on their backs don't have anything to do now. It's causing unemployment in the tribe! I'm not sure that should be allowed."

"But for goodness sake, Grug, that

Mr. Ross is an Oregon commentator and writer especially concerned with new developments in human freedom.

just means those people are free to do other things!"

"Well, it seems they don't really want to, Ugar. After all, the only thing most of these people know is hauling; they've grown up with it."

"But the wheel has made us a wealthier tribe!"

"Yes, Ugar, it has. But wealth isn't everything. Job security is pretty important. The displaced haulers have demanded protection from your invention!"

At this point we leave the frustrated Ugar sputtering with rage over man's first encounter with government fiat against a machine.

The same argument circulated through history whenever *any* new machine was introduced: calligraphers objected to the printing press; blacksmiths to automobiles; handweavers to weaving machines; newspapermen to radio and television. You name it, wherever a new machine was introduced, there was one standard argument: this machine is going to throw people out of work!

In the short run, it is often true. And it *can* be quite tragic. As F. A. Hayek wrote nearly forty years ago, "That anyone should suffer a great diminution of his income and bitter disappointment of all his hopes through no fault of his own, and despite hard work and exceptional skill, undoubtedly offends our sense of justice. [But fulfilling the] demands of those who suffer in this way, for state interference on their behalf to safeguard their legitimate expectations . . . becomes a privilege at the expense of others whose security is thereby necessarily diminished."[1]

We can easily see what Hayek meant. Often the very reason producers buy machinery, such as robots, is to lower their labor costs. Labor makes up the bulk of expenses in most businesses. If a machine can produce more than a worker, then the businessman is smart to get it in order to maximize profits. And this is precisely what manufacturers the world over are doing with robots.

The Other Side

While some workers are losing their jobs to these mechanical marvels, there is another side to the story—a side which the labor-protectionist lobbyists and policymakers are conveniently ignoring: Any increase in productivity ultimately results in higher profits which are then reinvested. The reinvestment in turn ends up creating *more* jobs—although frequently of an entirely new type.

However, when policymakers pass legislation outlawing or restricting the use of robot labor-saving devices, they are granting the "privilege" Hayek was addressing—a privilege which diminishes the security of others who would have had the new and often better jobs that the increased productivity would have eventually created.

Introducing robots and other new machinery is a crucial use of capital in a free economy. Efforts to prevent its introduction constitute what Brian Summers aptly called "capital held hostage," a condition which has stultifying economic effects. "New businesses, new products, and new jobs," Summers writes, "won't appear because the needed resources are tied up in inefficient production processes [which lead to] greater costs, higher prices, and lower real incomes."[2]

Despite these effects, more and more unions and industries are demanding "protection" either from the new robots themselves, or from the competition of other producers who have already installed the machines, or from those in less developed nations with lower labor costs. These demands reflect an inability[3] and unwillingness to see or act far enough ahead. The protectionist cries are coming mainly "from industries in developed countries which have not modernized their production processes and find themselves unable to compete with more efficient and low-cost plants in developing countries."[4] In addition, developing nations (or *new*, young industries in developed nations!) may have significantly lower wage rates enabling them to produce the same goods for lower costs with the *same*, outmoded equipment that the older industries use—a clear demonstration that higher labor costs underlie much of the industrial spur to automate and robotize.

Even on "Robot Island" (Japan) where up to 80,000 robots (depending on whether one includes nonprogrammable devices) are productively cranking away, helping to keep unemployment under three percent, the workers' fears of robots are gaining foothold as "trade unions began [in 1981] raising the issue of job protection in the wake of robot automation as a clause for new contracts."[5]

Restricting Robot Use and Subsidizing Displaced Workers

If Japanese or American workers actually begin to get such job protection, aside from protection from competitors, it is likely to take two forms: (1) Restrictions on the use or introduction of robots—which could include banning robots entirely from some industries, restricting robot numbers for a particular type of job, or slowing down the pace at which they can be introduced. (2) Mandated monetary compensation—which could include lump-sum payments to displaced workers, "tie-over" funds for a specified period of months in order to allow workers time to find other work, schooling/retraining grants to allow workers to more easily obtain other jobs, or any combination of these.

Whichever of the two categories is accepted, Hayek's warning will still assert itself. *Either* restrictions on robot use or mandated compensation will inhibit profits of the companies involved, thereby slowing capital accumulation and eroding the reinvestment which would eventually result in a total increase in the number of jobs available to others (or, for that matter, to those whom the robots might have otherwise displaced!).

Interestingly, protection from competition produces the same effects. Governments must subsidize protectionist measures through taxes, inflation, or by borrowing. These subsidies crowd out capital, making it more difficult on many other businesses. When a government takes more in taxes or inflation, or drives up interest rates by increased borrowing, there is less left in the private sector for businesses which are *not* favored by government protectionism. They find it harder to save enough money out of their reduced profits for reinvestment, research, retooling, or anything else, thereby lowering *their* competitive vitality in the market.

It is one more illustration of the fact that efforts to coercively "create" or "preserve" jobs (two sides of the same coin) for *any* reason will in the long run wind up destroying more jobs by eroding the capital base necessary for efficient (market-generated) job creation. The motive is quite irrelevant: Whether government's aim is to make new jobs or to protect existing jobs from foreign competition or from robot displacement, the result is to degrade overall employment opportunities.

Salvaging Valuable Workers

Please note that *mandated* protection of workers has a result very different from worker protection or aid programs which businesses themselves voluntarily undertake. The latter type of protection tends to be successful because the companies which decide to retrain, relocate, or otherwise help workers do so, *not* based on altruistic concerns for the workers' welfare, but rather for a more powerful reason. That reason is the self-interest of the firms themselves. If the firms find a way to make worker retraining and other "protection" profitable, they will do it.

For instance, it is well known that the giant telecommunications firm, AT&T, all through the recession, its current divestiture, and for many years before, has made Herculean efforts to protect its workers. Why? Because the company has placed a high value on the expertise and knowledge of its employees. AT&T does not wish to lose the workers whom it has spent so much time training and is confident that it can retrain workers for new jobs. AT&T has in fact been a consistent world leader in this kind of job protection—despite all the talk about how big American companies do not understand the value of investment in employees the way that the Japanese or Swedes or Germans do!

But it is not just the reinvestment factor which robot restrictions and mandated compensations would inhibit. Robots are having the effect of "rapidly transforming business in all economically advanced societies, and most rapidly in the United States. Computers wed to robots are rapidly making it possible for mini-factories to efficiently manufacture products with far greater flexibility than has been possible, thus allowing a far greater variety in the end products."[6]

To state it another way, robots are now a major part of a basic *restructuring* of modern business—a restructuring which affects not merely the marginal efficiency of businesses, but their very way of *doing* business. Consider: If this change is allowed to continue, it will renovate whole *areas* of efficiencies, lowering building site rental and construction costs (smaller businesses need less land and floorspace), energy bills (smaller businesses consume less electrical power and require less heating), warehouse and other storage costs (the ability to efficiently produce smaller quantities will allow the maintenance of smaller inventories), and lower business taxes (smaller inventories, less energy, and more compact buildings mean a business will pay fewer taxes on these items). All of these gains—and numerous others—will be stunted, however, along with normal efficiency gains if protective labor legislation thwarts the introduction of robots. All of these magnificent gains will become the victims of the short-term "security" afforded to the "victims" of robot machinery.

Unpredictable Ways to Succeed

While it is seldom stated so openly, one major objection to the claim that robots end up creating more jobs than they displace is the following: "The claim is unscientific because no one has ever been able to point to a specific, single, exact process by which the job gain occurs. Science demands specifics. Where are they?"

It is true that in free markets there is no *single*, specific process, no magic avenue by which the economy can be assured of creating more jobs than new machines replace. But that is not how the market works. To demand that one identify such an unrealistic, specific job-creation path is equivalent to demanding that one be shown "the" way to make money, "the" way to design a refrigerator, "the" way to rise to the top in a profession. Part of the very nature of the market is its diversity, its many and often unexpected, unpredictable ways of solving problems.

What we *do* know about how free markets create jobs is of a substantially higher order—the principle that liberty encourages profit-seeking, technological (machine) innovation, which results in greater productivity, and that from these qualities inevitably emerges more employment. The scientific evidence for this theory—indeed the *proof*—lies in the record of every free market in history and its comparison with controlled markets. There *is* specific evidence involved, but it is not of the strawman variety which the antagonists of robots and other new machinery demand. The unscientific taint of their argument lies in its denial of the nature of the market itself. It is not science, but fantasy, to demand a "proof" which lies outside the nature of a thing.

In essence, then, the fear that robots are anti-employment is an extremely short-range, irrational fear, a descent into Ludditism. Robots are a part of a man's technological nature and his future. One cannot rationally object to their entrance into the marketplace without simultaneously demanding that man deny the kind of being that he is. As Jake Page concluded so eloquently in a recent issue of *Science 82*, "To moan about new technologies disrupting the social order . . . is to look at your hand and wish it were a paw."[7]

The hand and mind of man have, through the use of ingenious machines, created all the opportunities, the prosperity, and employment of our species. Let us not reject the latest of those machines, but embrace them—for the delightfully enhanced tomorrows they can bring.

—FOOTNOTES—

[1]*The Road to Serfdom*, University of Chicago Press, 1944, p. 123.

[2]"Industrial Hostages," *The Freeman*, December 1982, pp. 748–9.

[3]The inability includes government hindrances on capital gains, a situation which is fortunately being corrected in America.

[4]S. Dhanabalan, "The Protectionist Threat to the Third World," *The Wall Street Journal*, November 22, 1982, p. 25.

[5]"Robots: Japan's answer to Guest Workers," *Science News*, November 6, 1982, p. 299.

[6]Jack D. Douglas, "The De-Bureaucratization of American Business," *The Freeman*, November 1982, p. 670.

[7]"A Case of Technocide," November 1982, p. 94.

IDEAS ON LIBERTY

James Madison

THAT is not a just government, nor is property secure under it, where the property which a man has in his personal safety and personal liberty, is violated by arbitrary seizures of one class of citizens for the service of the rest.

Progress and Privilege

IT was Earl Dunckel, now a Washington publicist but then with the General Electric Company, who first called attention to the fact that the environmentalist movement was being exploited to keep less privileged classes from rising in the world. The environmentalists, with their talk about the "population bomb," had linked themselves to the "zero population" drive. They resented new people. And, in their animus against "smokestack industry," they frequently gave the impression that they would like to repeal the whole industrial revolution.

Oddly, they found their most fervent supporters in the wealthy, who could afford to drive their Porsches and Mercedes Benzes to the edge of wilderness areas and take off on backpack vacations that were beyond the reach of the blue collars among us. The blue collars, forced by circumstances to remain close to industry in states like Michigan and Pennsylvania, were limited to rabbit shooting or deer hunting in local non-wilderness woodlands if they wished to gratify their love for the wild.

The alliance between the Sierra Club and the wealthy demanded consecration as "liberalism." Earl Dunckel called it "reactionary." The blacks and the poor, deserting their accustomed places in the old "Roosevelt coalition," surprised the "liberals" by agreeing with Dunckel. As I found out by writing columns about Dunckel's contentions, they wanted jobs even at the risk of some pollution. Not that they were against clean water and clean air; they simply asked for trade-offs that would permit them to work and to raise and educate children in an expanding world.

The trade-off movement had no intellectual sanction until *Harper's* Magazine began printing essays by William Tucker, himself an ex-"liberal" who had made the discovery that environmentalism had been subverted by practitioners of the "politics of aristocracy." Tucker has now adapted his essays to a remarkably sensible book, *Progress and*

Privilege: America in the Age of Environmentalism (New York: Anchor Press-Doubleday, 314 pp., $17.95).

The "have-nots" began to register their objections to environmentalism as a "no-more-growth" phenomenon at the very outset. When, on Earth Day, 1970, a group of California students buried an automobile to symbolize their renunciation of "materialism," the event was picketed by black students, who thought the car might better have been used to help improve the condition of the poor. Bayard Rustin, the veteran civil rights leader, called the environmentalists "self-righteous, elitist, neo-Malthusians who call for slow growth or no growth . . . and who would condemn the black underclass, the slum proletariat, and rural blacks, to permanent poverty." And Thomas Sowell, the black economist, remarked that "you don't see many black faces in the Sierra Club."

Preservationists

As William Tucker explains in the portions of his book that are devoted to back history, the modern environmentalists have done violence to the whole memory of Theodore Roosevelt, Gifford Pinchot and the other early-century pioneers of the conservation movement. The modern environmentalists, says Tucker, are preservationists, not conservationists. There is a world of difference between the two approaches to wilderness. Preservationists think of the woods as temples (see John Muir), but they want to exclude people from the temples by denying them access roads or even the right to chop firewood for camping trip cook-outs. They want no change whatsoever in the pristine environment.

The conservationists, on the other hand, are for multiple use of the national reserves. What they insist upon is orderly exploitation that is compatible with sound restoration practices. They would allow timber cutting of "ripe" trees, but with the proviso that a new tree be planted for every one that is sent to the lumber mill. "Sustained yield" is the conservationist watchword—and our big forest products companies have quite honestly complied with the philosophy of renewed growth as it was set forth by the followers of Teddy Roosevelt.

In the case of leased coal lands, the trade-off between commercial use and long-term conservation would be to make landscape contouring and soil restoration part of the contract. And proper clean-up practices would be demanded of oil companies and any miners lucky enough to find cobalt in Idaho or molybdenum in Colorado.

The Sagebrush Rebellion

The modern preservationists lobby against a restoration of the Homestead Act and are for cancelling one-hundred-year-old leases on federal grazing land. So the old conservationist compromises of the Teddy Roosevelt era are in danger of being eroded. Tucker notices, however, that it is an East Coast and West Coast Alliance of the rich that insists on backtracking from multiple use. The people who live in the mountain and intermountain areas and in the dry regions of Arizona and New Mexico are, he says, "still looking for growth and economic advancement." They feel they are being "excluded from their land." Hence the rise of the Sagebrush Rebellion.

Tucker doesn't want to see the Sagebrush Rebellion succeed in pulling "the government out of its monitoring rule entirely." He thinks this would result in burying the original Conservation ethic. The difference between the Conservation Era and the present, he says, is that the Conservation leaders—Roosevelt, Pinchot, Powell, and the others—"were able to grasp the elements of the situation and offer effective leadership that produced a reasonable compromise. Today, most political officials and opinion leaders don't even know what they are talking about. They think conservation is preservation, and spend most of their time floundering in their own rhetoric."

Tucker is not impressed with "population bomb" fears. He notes that birthrates always tend to stabilize as industrialization proceeds. The "revolt against science" is an old story, as Tucker emphasizes in his recapitulation of the attempts to outlaw the steam locomotive and the use of alternating electric current.

The environmentalists have tried in recent years to stop genetic engineering. They are afraid that fooling with the genes might result in creating monsters. Tucker, citing recent experiments, surmises that the Frankenstein phobia expressed in books such as *Who Should Play God?* is utterly misplaced.

Tucker thinks of the Age of Environmentalism as an interlude. "We are the wiser for it," he says. But "history is calling us" and there is still much to be done for progress. "It is time," he concludes, "to begin again."