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Ideas on Liberty

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OCTOBER 01, 1984 by J. Ollie Edmunds

Self-Reliance

THE GREAT CAUSE for alarm is not that the "planners" want to plan our lives but that we are allowing them to do so. and the most tragic aspect of it all is that so many of us, who should be more far-seeing, are helping them, by scurrying to Washington every time our own "security" in the form of special favors is endangered, every time we ourselves want some "planning"—subsidy—from the government.

This country was not built by men who relied on somebody else to take care of them. It was built by men who relied on themselves, who dared to shape their own lives, who had enough courage to blaze new trails—enough confidence in themselves to take the necessary risks.

This self-reliance is our American legacy. It is the secret of "that something" which stamped Americans as Americans. Some call it individual initiative; others backbone. But whatever it is called, it is a precious ingredient in our national character-one which we must not lose.

The time has come for us to reestablish the rights for which we stand—to reassert our inalienable rights to human dignity, self-respect, self-reliance—to be again the kind of people who once made America great.

Such a crusade for renewed independence will require a succession of inspired leaders—leaders in spirit and in knowledge of the problem, not just men with political power who are opposed to communism, or to diluted communism, but men who are militantly for the distinctive way of life that was America. We are likely to find such leaders only among those persons who teach self- reliance and who practice it with the strict devotion of belief and understanding.

—J. Ollie Edmunds

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The Debt: Catastrophic Urgency, Little Concern

OCTOBER 01, 1984 by Jeff Van Drunen

In recent years the annual federal budget deficit has been growing at a steady rate. Last year alone the *"on* budget" deficit was nearly $200 billion. Many people show little concern over these increasing budget deficits and some others who are concerned feel the problem is too great for anyone to tackle. The deficit is not generally talked about with concern among friends and it draws proportionally little serious attention when positioned next to popular daily news items.

The inexorable consequences of continued government deficits will be far more devastating than a few pins and needles from the local Girl Scout Troop, and the general lack of concern by the population indicates little understanding about this "strange" monster called the deficit. Statistically, annual budget deficits are growing faster than the economy and also faster than general revenues. Currently the annual increase approaches 18 per cent; an added $20 billion a year is needed to pay the interest on the previous years deficit.[1] The total Federal debt to date, since the founding of our country is over $1 trillion; yet at the present rate, in the next 10 short years more than a *doubling* of this debt will take place.

The dangers associated with this debt are very real, and the final principal evil resulting from this debt will be a debasement of the national currency, or in other words, monetization of the debt. Monetization of the U.S. Federal deficit is the most politically acceptable way to "pay" the deficit; however, the consequences of this inflation will be devastating. Economically speaking, a reduction in Federal spending is the only way to reduce our deficits and eliminate the temptation to inflate the money supply if the U.S. is to prosper in the future.

What Is a Debt?

"Individuals and nations can pay for their purchases in three ways: 1) out of current earnings, 2) by drawing from past savings, 3) by going in debt."[2] Government debt is no different from private debt in that deficit spending is simply spending money one does not yet have. Therefore, if Congress votes to spend more money than they take in by taxation or donation, assuming they don't have a savings account to draw from, they must run a deficit. Annual increasing budget deficits of course indicate the government truly has no large bank account to draw from. Deficit spending is a result of excessive government spending. This leads to the question: Why is the government caught up in excessive spending, why doesn't the government stop spending money it does not have?

Why Does the Government Run a Deficit?

The beginning of the U.S. budget deficits are partially attributed to a man named John Maynard Keynes (Keynesian economics). Keynes argued that during a time of depression and unemployment, such as that experienced during the 1929 Great Depression, the government could intervene into private affairs and manipulate savings to offset the generally depressed and unemployed economy. The way he proposed to accomplish this was by increasing "national aggregate demand," by running a government budget deficit during depressed years. Keynes saw that the borrowed money would have a stimulating effect on the economy when initially introduced; however, when the deficit was paid back he realized an opposite, non-stimulating, effect would result.

Eventually, many people began to understand that a bit of stimulation was pleasant when initially introduced into the economy. Continued deficit spending resulted in continued increases in aggregate demand. Finally, many economists and politicians began to believe that an out standing deficit was the solution to any slowdown in the economy and that deficit spending was a very necessary insurance policy for a successful U.S. economy. This was all very acceptable to those who favored the Keynesian deficits. However, Keynes never resolved how these outstanding deficits would be financed. Keynesian deficits *had to be financed* and that was the unpleasant catch. More will be said about financing deficits later.

The birth of many government programs we have today started in conjunction with the "Keynesian Revolution." Among these programs are Social Security, Medicaid, and Food Stamps to name just a common few. (Actually, a list of all government financed programs would be longer than this essay.) The point to be made is that government, over time, began to take on the function of being responsible for more than its original and narrowly defined purpose of protecting and maintaining a free society.

Entitlements Claimed

People became accustomed to the government subsidizing part of their income and started to rely on the government for financial security. As time passed the term “entitlement programs” was used to describe these government subsidized payments, and a growing number of students, elderly, and other special interest groups began feeling the government had a duty to provide these subsidized payments to them. Lawrence Reed clearly describes the entitlement program problem he encountered while running for Congress:

> Similar experience came my way throughout the campaign. A farmer wanted dairy subsidies; a teacher demanded more money for education; some business man asked for more small business loans; a mayor appealed for more revenue sharing funds, and so on it went. And of course they all wanted me to be sure to send the bill to someone else. Isit any wonder we are becoming addicted to deficit spending, a practice that threatens to sink the U.S. economy with an incomprehensible burden of debt?[3]

Transfer Payments

As special interest groups began to associate with the “right” to government transfer payments, derived from tax revenues and ultimately deficit spending, politicians began to find themselves in an increasingly sticky funding situation. Politicians are faced with the desire to be *elected* at the beginning of each new political term, and generally the politician who promises the most benefits from the hard-taxed public to the special interest groups in his district receives the most votes. This was not the sole determinant of who would or would not be elected during the early years of government spending. However, the *number of people participating* in government-financed spending programs increased rapidly as more and more people became “entitled” to one spending program or another. According to economist Warren T. Brookes, “Nearly 55% of the federal budget goes into what are commonly called ‘transfer payments,’ payments to individuals, families, or state and local governments for which no current service is rendered.”[4]

One can easily imagine what happens if 55% of the people in a particular politician’s district enjoy the benefits of these “free and easy” transfer payments. Most wish to continue receiving them long into the future. If the politicians serving these special interest groups would say, "Sorry, we don't have enough money to pay your college loans" (or welfare checks, or whatever else the payment they are receiving might be), those receiving the payments will become *very unhappy.* So unhappy, that if another man runs for office and promises them the same or greater benefits than the incumbent, the population is likely to vote for the greater monetary promise. Considering all the men who wish to run for political office and all the people who wish to receive payment for doing essentially nothing productive, one can see the temptation for politicians to drift toward public spending—and more public spending simply because an increasing majority of the population so demands. A free ride, something for nothing, is not the wisest economic policy.

Obviously, the components of chronic Federal overspending can be attributed to more than just transfer payments; however, transfer payments are the largest part of the Federal budget and clearly demonstrate the kind of political pressure that exists pushing spending beyond balanced limits. For practical purposes, *as the demand for public spending increases, political pressure to spend increases, and the size of the budget deficit increases.* This is the principal reason for large budget deficits.

Why Is the Deficit Bad?

Apart from the fact that budget deficits are bad for the economy, a point we will consider later, the social "transfer" and "entitlement" programs are detrimental to the economy and population as a whole. These programs transfer wealth from those who produce to those who are not necessarily being productive. Welfare is just one example. The ultimate result is an overall lowering of the standard of living for the population as a whole. Those who receive the payments lose incentive to work, or to be productive. Those who are *taxed* to support these unproductive persons have less money to save and invest in further productive capital. Since profits resulting from productive activity are partially taken away through taxation, the number of dollars left to save and invest in new capital *decreases*, and incentive to produce and maintain future capital is squelched. This increased government spending moves in a vicious circle of taxing, redistributing, and taxing again to bring the population to a lower standard of living and finally to a state of socialism.

Having looked at a short explanation of *how* the government has adopted an overspending policy of financial mismanagement and *why* the politicians are in a spend-spree bind, we can look further at why these deficits are so bad for our economy and country. Let us consider the political and financial alternatives to reducing or financing the debt. Four possible ways to confront a deficit exist: (1) increase taxes, (2) decrease spending, (3) borrow, or (4) monetize the debt. One or a combination of these options *must be enacted when considering debt finance.*

Tax Increases

The first possible path that can be considered when approaching a budget deficit is an increase in taxes. We may cringe as we read this, for who wants to pay more taxes? Well, in fact, *very few* people do. That is a basic problem when considering this option of reconciling a Federal debt. The tax rates in the U.S. are already high enough to suit most people. Gary North states, "We have hit the resistance point in taxes as a percentage of personal income."[5] In other words, today, taxes imposed are not the same thing as taxes collected. This is not to say that there will be no further tax increases. However, taxes will not increase at the same high percentage rate that deficits and Federal budget outlays are increasing. People just will not accept large tax hikes. Imagine President Reagan proposing a $200 billion tax increase to offset next year's deficit! The government would be confronted with a tax revolt and would be unable to squeeze half of the desired revenue from the population. People are at the resistance point as far as taxes go. (Earlier, we also saw that the combination of increased taxation and spending is undesirable since it lowers productivity, capital accumulation, and the overall standard of living, bringing the U.S. population closer and closer to becoming a purely socialized state.)

Decreasing Federal Spending

If increasing taxes is not a good approach when considering the deficit, let us look at another option; decreasing federal spending. First of all, politicians and elected officials have a lot on the line when they consider decreasing spending as opposed to finding other ways to finance the deficit. As discussed earlier, politics is their job and nobody really wants to lose a job. Economically speaking, almost all the special interest groups are willing to *take* but none are willing to *give.*

A reduction in Federal spending is actually a beneficial way to resolve the deficit problem because it reduces the size of the unproductive and inhibitory State burden upon the free market. This option, as economically hopeful as it may be, rests on the *prerequisite* that the population recognizes the debt hazard and is willing to give up its "Robin Hood Style" of economic gain in order to achieve long-run economic benefit. In addition, government officials must be so aware of the debt hazard that they do not tempt taxpayers to vote them into office on the promise of a free lunch. The chance of reducing government spending at the present time looks grim; however, it is an economically sound option to debt reduction. We will return to this idea of reducing spending later.

Borrowing

A third option one can consider when talking about the deficit is that of borrowing the money to continue enjoying deficit spending. Some real problems exist in borrowing to finance the debt. As Gary North explains, *"The debt must be funded* by selling debt certificates, and *these certificates are never ever redeemed.* They become part of the *permanent debt base* of the messianic State."[6] This means the government debt base is never paid off. When the government borrows money from citizens or private banks it begins paying interest on that loan immediately and indefinitely. The result of this can be imagined if one looks 10 years into the future when we will likely have a $2 trillion debt. The interest payment at 10 per cent per year on just this $2 trillion would be *$200 billion* which would have to be paid for by *still more* borrowing or taxation. Year after year this compounding will continue until not even the interest payments can be made on this debt, let alone the money needed for daily government operation to continue.

Complicating the problem still further is the fact that massive borrowing, even if it could continue indefinitely, will wreak havoc on the economy. Congressional Budget Office Directer Rudolph G. Penner states, "Interest costs are beginning to drive outlays in a very uncomfortable way."[7] In other words, as the government borrows large amounts of money it begins competing with the private, capital-investing sector of the economy. This causes interest rates to increase and private investment in capita] to decrease due to a higher cost involved in borrowing money and investing it in productive capital. Savings will be transferred and consumed by the unproductive government spending spree at the cost of private investment. Reduced private investment in capital, in turn, means a more restricted economy and lower productivity. Decreased productivity will lower government revenues reliant on tax dollars and start the whole vicious borrowing cycle all over again. During this time the standard of living of each person in the U.S. will continue falling until this ever-hungry debt has siphoned all life out of the economy.

Monetization of the Debt

Now that borrowing, taxing, and reduced spending have been discussed as three possible plans of debt reconciliation, we will turn to a last option, monetization of the debt.

Monetization of the debt is simply the government printing unbacked dollars to pay the debt. You could do precisely the same thing if you were up to your neck in debt and had access to a counterfeit printing machine. All you would need do is print a stack of counterfeit 10s and 20s and proceed to pay your lenders. This, of course, is illegal for a private citizen to do; however, the government uses this method of debt reduction with great regularity.

To understand the monetization process, imagine a small economy in which 100 dollars is the total amount of money in circulation. In this particular year the government collects $50 in taxes and has an added $20 deficit. To pay the deficit, the government decides that monetization is the easiest path to follow. So they tell the Federal Reserve Board (the printing press) that they need $20. The FED sends the 20 crisp new singles, and the government uses these new dollars to pay for their unfunded spending projects. However, now $120 are circulated in the economy instead of $100. Does this mean the economy is $20 richer? Of course not. The government has not created any wealth or capital, nor has it done anything productive. The government, just as any counterfeiter, has actually robbed wealth from some parts of the population and transferred some of that wealth to other parts, *exactly* as a counterfeiter would do.

Soon people will find that $2 isn't worth $2 anymore and that they may need $3 to buy what had been a $2 item. As a counterfeiter prints new dollars, the value of each dollar in the economy *must decrease*; for now there will be more dollars competing for the same amount of goods, simple supply and demand. This monetization process is termed *inflation* and should not be confused with increasing prices. Price increase is a *result* of inflation; *inflation* is government printing of unbacked paper dollars or counterfeiting.

Inflation logically causes an increase in prices, but along with increasing prices there are other undesirable characteristics: (1) First of all, inflation is politically easy. By inflating, the debt is paid in one shot with no need to borrow any money. (2) The population as a whole does not understand the inflation process and, thus, does not react in the same way they would to large tax increases. (3) People enjoy getting raises and higher incomes year after year even though the inflated dollars they make don't buy as many goods as before. (4) Many politicians and economists feel inflation has a stimulatory effect on the economy, reducing unemployment and increasing productivity. *No government*, however, can "buy" prosperity by printing paper money. Paper money is not wealth. Only increased capital investment and more efficient production can create wealth and revive and build an economy.[8] Because of these characteristics of inflation the temptation by those in government office to overspend, inflate, and overspend some more is *enormous*. This is simply because the people and government officials view inflation as the *easiest* and *most beneficial* option to follow when financing deficit spending.

No Magic Potion

Inflation is not a magic potion, and the dangers of deficit spending are not easily printed away. Essentially, inflation is a "silent tax" eroding wealth from the American wage earner. This inflationary tax is no different from any other kind of tax in that it has the same tendency toward lowering productive activity as would an officially legislated tax. (Refer back to the section on taxation as a method of debt reduction.) Inflationary policies *always* end in destruction of the national currency, *lower* the standard of living, and de*crease* capital accumulation. Continued economic expansion grinds to a halt and a haphazard redistribution of profits and losses takes place.[9] Ludwig von Mises explains:

> . . . this wonderful system, [inflation] has one fundamental weakness: it cannot last. If inflation could go on forever there would be no point in telling governments they should not inflate. But the certain fact about inflation is that sooner or later, it must come to an end. It is a policy that cannot last.[10]

In the end, inflation cannot last because the currency and the economy will be destroyed. In recorded history, *no* inflation ever resulted in continued economic stability and growth; and *no* practice of continued deficit spending *ever* resulted in anything but rampant inflation, monetization of the debt. (Incidentally, government can only inflate if it has access to the national currency. This is usually an unbacked currency. In earlier years American dollars were backed by gold. You cannot inflate gold. Since abandoning the gold standard, the U.S. has fallen into the inflationary trap that is now beginning to show its destructive effects.)

The serious effects of government spending and inflating have not yet been fully felt in the U.S., and many people neither see nor feel the threat of these devastating policies. Inflation must, however, be halted. According to that wise economist, Ludwig von Mises:

> One of the privileges of a rich man is that he can afford to be foolish much longer than a poor man. And this is the situation of the United States. The financial policy of the U.S. is very bad and is getting worse. Perhaps the United States can afford to be foolish a bit longer than some other countries . . . . Inflation is a policy. And a policy can be changed. Therefore, there is no reason to give in to inflation. If one regards inflation as an evil, then one has to stop inflating. One has to balance the budget of the government.[11]

Conclusion

Borrowing the money for long periods of time, as we saw, is not feasible because of the compounding effect of interest on these never-redeemed debt notes, competition with private borrowing, and a quickly depressed economy. This is politically unacceptable and a path no previous government has followed for long.

Increasing taxes and inflating are *essentially* the same thing since *inflation is a tax.* The public, however, will not stand for much increase in direct taxation without a blatant tax revolt. Large tax increases will not materialize into large revenue increases. Inflation, on the other hand, is a "silent tax"; few people understand it and fewer still would propose a plan to abolish it. Politicians like it because they are not easily associated with the inflating process, and for a while there seems to be no limit to the amount of money they can tax from the American citizen by inflating. They can promise their electors the many benefits of entitlement programs and all other programs in exchange for votes in the name of easy money. However, I repeat, in recorded his tory, *no* inflation ever resulted in continued economic growth, and *no* practice of continued deficit spending ever resulted in anything but rampant inflation.

Right now the U.S. government is *both* inflating and deficit spending. Time is running out. A serious reduction in government spending is the only way to pull the U.S. economy out of otherwise certain economic destruction. Reduced government spending will not only eliminate the deficit and all the danger associated with it, but, also, revitalize American industry and productivity. Reduced spending will again free American enterprisers to invest in productive capita] and let them profitably produce to the best of their ability. More and better capital investment is the *only* way to increase the per capita standard of living in a society despite age-old attempts to produce wealth by means of the printing press.

The lessons of inflation are slowly learned if learned at all. Therefore, if a serious sustained reduction in government spending is not maintained, the U.S. will follow the history of other nations to a similar inflationary fate. Politicians, citizens, teachers, and economists must intelligently resolve this problem by realizing the hazards of this seemingly inevitable inflation and by voting to greatly reduce government spending, thereby defusing the deft-cit time-bomb aimed at our country.

"The country," declares G. C. Wie-gand, "is faced with grave problems —thirty years of inflationary boom may be followed by thirty years of relative decline, which may seriously affect the character of American society, free enterprise, and personal freedom,—but the country has the potential economic, social, and moral resources to overcome the threatening crisis. It all depends upon whether the leaders have the necessary wisdom and courage to lead, and the people have the stamina and will to make necessary sacrifices. The future of America is ultimately not an economic but a moral issue."[12]

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1. Gary North, *Remnant Review*, Vol. 11, No. 2 (P.O. Box 8204, Fort Worth, Texas: 20 Jan. 1984), p. 7.

2. G.C. Wiegand, *Debts, Inflation and the Future*, (Greenwich, Conn., Committee for Monetary Research and Education, Monetary Tract 17, Jan. 1977), p. 8.

3. Lawrence Reed, "Where Deficits Come From," *Western Monetary Report*, Vol. 3, No. 5 (March 1, 1984), p. 7.

4. Reed, p. 6.

5. Gary North, *The Last Train Out* (Fort Worth, Texas: American Bureau of Economic Education, 1983), p. 46.

6. North, *Remnant Review, p. 4.*

7. "Reagan's Good Times Budget," *Business Week*, No. 2826 (January 30, 1984), p. 70.

8. Wiegand, p. 5.

9. Henry Hazlitt, "Keynesism in a Nutshell," *The Freeman;* Vol. 32, No. 11 (November 1982), p. 650.

10. Ludwig von Mises, *Economic Policy* (South Bend, Ind: Regnery/Gateway, 1979), p. 63.

11. Mises, p. 72.

12. Wiegand, p. 33.

Freedom of the Press

APRIL 01, 1965 by Dean Russell

Dr. Russell, economist, is a member of the staff of The Foundation for Economic Education.

To the best of my knowledge, freedom of the press (the printed word) is complete in the United States today. That is, anyone can still write whatever he pleases and (subject to our reasonable libel laws) the police will protect both him and his manuscript. But all too many of us confuse "freedom to write" with "what is printed." Both my liberal and conservative friends are equally guilty of this disservice to freedom. If they disagree with what is printed in the newspapers, they are often prone to complain that freedom of the press doesn’t exist. That attitude demonstrates a total misunderstanding of the meaning of freedom of the press.

For example, it so happens that I am in general disagreement with the editorial viewpoints expressed by more than 90 per cent of the large daily newspapers in our country. But that fact has nothing whatever to do with the existence of freedom of the press. The only issue of consequence is whether or not the owners and editors of the newspapers are printing what *they themselves* choose to print—and for any good or bad reason that pleases them. If any publisher is ever compelled to print viewpoints that do not appeal to him personally, freedom of the press will be finished.

There is, of course, only one source from which that compulsion could come—government. Yet I have heard many of my teaching colleagues seriously propose the idea that newspapers should be compelled to print all viewpoints or, worse yet, that the government should establish "opposition newspapers" as a "public service." Both proposals are, of course, the reverse of freedom of the press. The only valid test of freedom of the press is this: Can you write anything you please, pay to have it printed, and send it through the mails at your own expense without police interference? If so, freedom of the press is complete. If not, there is no freedom of the press. The fact that you may not have the large amount of capital that is today required to establish a daily newspaper is in no way related to this issue.

The Supply of Labor

OCTOBER 01, 1984 by Hans Sennholz

A man cannot speak without revealing himself. He draws his portrait by every word he utters. When he speaks of “labor” he reveals his political, social and economic views by the connotations he attaches. He may look upon the individual and his labor as physical and mental exertion of a practical nature as distinguished from exertion for the sake of recreation and pleasure, Or he may refer to workers collectively, the working class. Most contemporary economists speak of “labor force” or “working force,” and discourse upon “national manpower.”

Writers used to report about men and women or adults and children in the labor market; they speak of “manpower” now. People were working in commerce and industry; today they are serving in the sectors of national production, in the public sector or private sector. Economic analysis used to focus on the individual and his ability to perform any kind of labor; today it concentrates on public policies and priorities. Economists routinely analyzed man’s choice between labor and leisure, and debated the “disutility” of labor. Today they seek public policy information so that government may act upon the national economy.

Contemporary labor terminology is taken directly from the language of the military. Generals organize their forces in armies, corps and companies, and wage their battles in sectors of defense. Economists who echo the militarists apparently see themselves as the generals of economic production; they would like to command the national labor force, or at least serve as learned advisors to the economic commander.

The military terminology may be perfectly suitable in an economic command system, such as socialism, fascism, or communism. But it is utterly alien in a private property order that rests on individual preferences and decisions and functions without economic command and sector strategy. Economists who favor such an order speak of individual choice and participation, of labor and leisure, labor markets and mobility, hours of work and rates of pay. Holistic, militaristic terms are repugnant to them.

Labor or Leisure

Man must labor to sustain his life and improve his conditions. In a free society he is at liberty to choose between labor and leisure. His choice springs from many considerations and value judgments, which may be affected by cultural and environmental factors. It is circumscribed by his physical and mental capacity to work. As individuals differ from each other so do workers differ in intelligence, discipline, amount and quality of training, skill, capacity to direct their own work or the work of others and, above all, in disposition or attitude toward labor.

Man chooses labor over leisure whenever the fruits of his labor seem more important to him than the disutility of his labor. He labors when his unsatisfied wants are more important to him than the discomfort of his labor exertion; he stops working at the point at which his leisure becomes more important than the satisfaction of another want.

Values and Choices

Man's disposition or attitude toward labor depends on many psychological, cultural and economic factors that affect individual values and choices. Material well-being is an important factor affecting his disposition. Improvements permit the satisfaction of less urgent wants, which in turn lower the value of the labor spent to satisfy those wants. The urgency of individual needs and wants, after all, determines the value of labor that is serving them. When the urgency declines for any reason, a worker may turn from labor to leisure and pursue other interests. Deterioration in well-being, on the other hand, may cause many individuals to return to the labor market and offer more labor.[1]

The quantity and quality of the labor offered in exchange for money depends to some extent on cultural and ideological factors that pertain to socially transmitted behavior patterns, beliefs, institutions, work and thought characteristics of a community or country. If the people rejoice in their labor and the fruits of their productive efforts, if they have the will and courage to work, they meet the most important requisite of success. If they believe in work, hard work and long hours of work, they have the key to prosperity and full employment. But if they work grudgingly because they long for leisure, they are destined to be poverty stricken. If they hate their work because they feel like helpless victims of ruthless employers in an unfair social system, they are doomed to be miserable and poor.

Man’s attitude toward labor influences the amount of labor he offers on the market. It affects his subjective valuation of the disutility of labor and the price paid for his labor on the market. Where governments or labor unions interfere with this price, his attitude may assure or deny him employment. The Japanese automobile worker who labors for duty and honor may put his mind, heart and soul in his work. He may compete effectively with a member of the UAW in Detroit who, deluded by the slogans of union propaganda, hates his work, loathes the corporation that employs him, and ever in anger presses his numerous grievances.

Labor and Economics

Market economists not only reject holistic terminology but also repudiate erroneous popular notions about labor. In particular, they oppose the notion that economic knowledge is applicable to goods prices only, and that wage rates and labor conditions are circumscribed by history and morality. It is this very notion that provides the intellectual foundation for government intervention in the labor market, and supplies labor unions with the rationale for coercive practices.

Acting man actually makes no distinction between the pricing of goods and the pricing of labor. He ascribes value to both according to their contributions to his well-being; he does not exempt labor from value considerations. When he purchases an automobile he does not inquire into the number of labor hours it took to build the vehicle in order to adjust his bid accordingly. Instead, he is likely to inquire into the quality and quantity of transportation services it promises to render. As customers, the workers themselves apply considerations of scarcity and utility to their purchases; as sellers of labor, they make choices that reflect their value judgments.

Human nature slowly and inexorably works its way through economic principles. But man is also political; under the guiding influence of public opinion, he may call on government to interfere with the economic judgments and actions of other people. He may use the coercive powers of government to force his fellowmen to act in a way they would not freely choose. Therefore, economists draw a sharp distinction between the market rate of wages, which the free interplay of the demand for labor and the supply of labor would set, and the actual rate affected by government compulsion and labor union coercion.

In an unhampered labor market, wage rates tend to move toward the increment of value that is added by the employment of a man, which is the same as the value lost by the discharge of a man. Economists call this last value the marginal utility or marginal productivity of labor. It is largely dependent upon the amount of productive capital invested per worker. At this marginal rate, anyone searching for employment can find a job, and anyone looking for labor can find a worker. If wage rates are forcibly kept *below* the market rate they cause shortages of labor. If they are set *above* the market rate they create surpluses, called unemployment. It does not matter who dictates the rates, whether government or union, and what their stated reasons may be; the effects are the same.

In a rare combination of circumstances governments may lower wage rates below those the free market would set. In times of war and postwar inflation governments may depreciate their currencies and thereby lower real wages. All along they enforce rigid price and wage controls that prevent swift adjustments. The market may call for rising wages, but the police controls permit no correction, which in time creates a discrepancy that causes labor shortages. The chronic shortages of coal miners and skilled craftsmen in postwar Great Britain under the Labor Party are vivid examples in point.

Contemporary governments prefer to use their police powers to raise wage rates *above* those free markets would set. After all, to raise wages is more popular with more people than to lower them. Politicians seek to enhance their popularity with worker-constituents by promising to exact higher wages and fringe benefits from employers. Labor unions thrive on the notion that they can improve the economic conditions of working people. It has made outside intervention in the labor market one of the basic features of our age.

Government or union intervention that seeks to raise the cost of labor above the marginal productivity of labor, i.e., the increment of value added by the employment of a man, reduces the demand for labor and creates unemployment. It renders marginal workers submarginal, i.e., it raises their costs above their productive contributions and thereby inflicts losses on their employers. To safeguard operations and protect their own jobs and those of their workers, employers have no choice but to discharge the loss-inflicting employees.

Unemployment is a chronic phenomenon wherever labor law and labor union forcibly raise the cost of labor above the rates free markets would set. Changes in the supply of labor may precipitate changes in employment if government prevents the necessary readjustment. A number of supply combinations creating unemployment come to mind:

1. The population is growing but economic production is stagnating or expanding at a lesser rate so that the marginal productivity of labor declines. In free labor markets declining labor productivity causes wage rates to fall. Where government seeks to bolster wages by law or regulation and labor unions defend or even raise the rates by collective coercion, they create mass unemployment. Thomas Malthus who, in 1798, wrote his famous essay on growing misery through population growth, would deliberate on the causes of rising unemployment if he were to write today.

2. The population is stagnant but productive capital is consumed, destroyed or withdrawn so that the marginal productivity of labor declines. If government or labor unions forcibly seek to prevent this decline, they create unemployment.

3. When millions of immigrants legally or illegally join the labor market while the amount of productive capital remains unchanged, they cause the marginal productivity of labor to fall. If wagerates are prevented from adjusting downward, the most expensive, submarginal labor remains unemployed.

4. The participation rate, that is, the percentage of population participating in labor market activity, may rise while the amount of productive capital remains unchanged. As the marginal productivity of labor falls wage rates are bound to decline. If government, union, or both seek to prevent the decline, they create mass unemployment.

5. If government or union forcibly reduces the number of hours worked per day, week or year, insisting on compensation for hours not worked, they create mass unemployment.

6. Under the sway of antimarket propaganda the workers may reduce their personal labors. Convinced that their wages are the products of class struggle rather than goods production, they may delay or even sabotage the production process. If downward wage adjustments are not permitted, the reductions in output cause unemployment.

Population Growth

No matter how plausible economic arguments may appear to a rational individual, they run counter to prevailing opinion about unemployment. Much of contemporary literature is presenting horrid descriptions of labor conditions, past and present, attributed to the private property order. Sole credit for improvements is given to government and labor unions.

Most unemployment explanations are based either on the Malthusian theory of population or the Marxian exploitation doctrine, or both. Thomas Robert Malthus, in his *Essay on the Principle of Population* (1798), postulated a universal tendency for population to grow at a geometric progression and for the supply of food to grow only at an arithmetic rate. As population doubles and redoubles, food and subsistence are bound, sooner or later, to fall below the level necessary for life. Positive checks then act to increase the death rate: disease, famine and war. And preventive checks may affect birth rates through moral restraint, such as prudential postponement of early marriages.

Malthus unfortunately did not foresee some of the effects of the Industrial Revolution. Set free from ancient prohibitions and restraints, Western man was about to embark upon a long road of technological innovations that improved the working and living conditions for all people. With private property in the means of production, he could save and invest, forming productive capital at a rate faster than the population growth rate, which was to decline substantially. Consequently, employment multiplied and the standards of living in capitalistic countries rose to unprecedented levels.

Yet, in non-capitalistic countries the fears of Malthus are fully justified. In India, China, Mexico and a hundred other places the political order may proscribe economic expansion through individual effort and initiative. It may not suffer private property in the means of pro duction, nor tolerate individual freedom and initiative. While medical science and hygienic knowledge, imported from capitalistic countries, may drastically reduce death rates in low- income countries and cause population explosions, the social and economic order may prevent increases in economic productivity. All this points at the sober fact that in many countries the population is growing more rapidly than the means of subsistence.[2] It cannot be surprising that the Malthusian explanations continue to be relevant for the poverty and unemployment problems in Asia, Africa, and Latin America.

The Marxian View

Karl Marx offered yet a different explanation of man's unemployment, past and present. According to his central thesis, only labor gives value, and since workers do not get all the proceeds of the productive process, they are exploited. Profits are exploitation lucre that leads to capital formation and mass unemployment. Exploitation and unemployment are destined ultimately to culminate in violent revolution and overthrow of the private property order.

This is not the place to refute Marxian dogma. But it must be pointed out that actual trends have been in the opposite direction. The gainfully employed population is much greater in capitalistic countries than in underdeveloped areas that lack productive capital. Under- employment and unemployment are more severe by far in Mexico, Central America and the Caribbean Islands than in the U.S.A. Wage rates and working conditions are immeasurably better in the U.S., which is attracting millions of illegal aliens. In fact, it can be stated as a basic principle of population distribution that man tends to migrate from socialistic countries to capitalistic countries.

Only barbed wire, high walls, and armed guards can prevent him from moving en masse.

Participation

There is work to be done every waking moment of man's life. From the dawn of time until the modern age man toiled to sustain his precarious existence. His oldest form of specialization was a strict division of labor between the sexes. The woman cultivated the fields, processed the food grown on the land, and prepared the clothing. To the man fell everything connected with hunting, keeping of livestock, preparation of meat, dressing of leather, and working with metals. Both labored from early childhood to the last days of their lives. There was no "retirement" or withdrawal from work so as to live at leisure on one's income, savings, or pension.

On the eve of the "Industrial Revolution" economic conditions were as dismal in Europe as they are today in many parts of Asia, Africa, and Latin America. They improved visibly with the dawn of the private property order, which permitted capital accumulation, technological improvements, and practical utilization of new inventions. The improvement of economic conditions, especially for working people, permitted them to think of leisure and retirement. Laborers gradually acquired the productivity and income that permitted them to reduce their work hours, take vacations, and excuse their women and children from participation in economic production. The new economic order that was built on individual freedom and private property in the means of production liberated working people.

The workers in their capacity as savers and investors did contribute a modest share to the improvements—as laborers they did not. They were the primary beneficiaries of the investments in tools and equipment that made their labors more productive and economic goods more accessible. Government officials and labor unions appeared on the scene much later, not only to claim credit for past improvements, but also to hurry workers along to ever more leisure. During the last half-century radical government intervention and labor union pressure have significantly reduced the supply of labor.

Withdrawal from the Workforce

Millions of *older* American males (65 years and older) have withdrawn from the labor market. When labor productivity rises, the income of all types of labor tends to increase, including that of aging workers. In their case, the rise may be partially or completely offset by a decline in personal productivity on account of illness or age limitations. But few individuals are prepared to suffer wage and salary reductions. Provided they can afford it, most individuals choose retirement rather than face demotions and pay cuts; they like to depart at the height of efficiency, productivity, and popularity. Moreover, they are encouraged to depart by social security, public assistance, and other benefits. All are transfer programs transmitting massive volumes of income and wealth to older people, reducing both the utility of labor and the cost of leisure. They permit rail-lions of elderly Americans to prefer leisure over labor.[3]

The labor market participation of *young people* (ages 14-20) resembles that of old people. Both groups have withdrawn en masse. But while the elderly retreat into retirement from which few care to return, young people are flocking to schools and colleges. Their decline in labor market participation is matched almost precisely by school enrollment, which is viewed by many as an investment.

Many people want more education, but few are willing to pay for it. For most people the combination of income forgone during the time of schooling, and the direct cost, such as tuition, room and board, books and materials, transportation, and other expenses, is just too burdensome. Public institutions of higher learning seek to reduce the direct costs through allocations of tax funds. Federal, state and local taxpayers now cover all or most of the tuition of millions of young people attending community colleges and state universities. Federal and state grants further reduce the direct costs of education, which for favored minority students may be free of charge. They may not even forgo any income during the time of schooling. Institutional employment barriers may hold them in a grip of permanent unemployment. After all, there are minimum wages and mandated benefits that exceed by far their labor productivity, which bars their admission to gainful employment. Their only escape from a life of idleness and despair may be education that raises their productivity above the barrier level. When seen in this light, the rates of return on education are extremely high, which accounts for a continuously strong education demand by minority youth.[4]

The Liberation of Women

Women usually face a three-way choice between leisure, labor market participation, and production at home. In most parts of the world they spend their lives in grueling household labor as homemakers for their families and mothers to their children. They labor from dawn to dusk in the care of home and household. In countries organized along lines of the private property order, however, most women have been liberated from the daily drudgery that had been their lot in life. They were liberated gradually in the same way as men were liberated from grueling chores, through greater specialization and division of labor, and above all, through the application of capital in the form of modern tools, appliances, and laborsaving devices.[5]

Throughout the 19th century the economic liberation drew a growing number of women from the home to the labor market. Rising labor productivity and increasing wage rates together with declining goods prices made it advantageous to participate in the labor market. When it takes three hours of market labor to earn the purchase price of a dress, but three days of spinning, weaving and sewing to make it at home, it is advisable to seek employment and purchase the dress. If it takes a few minutes of market labor to earn the wage needed to buy a can of chicken soup, which would require many hours of kitchen labor to prepare in a way grandmother did, it becomes economical to earn a wage and buy the soup.

In recent years the private property order has granted new gratuities to countless millions of workers in the form of push-button machines that give men and women unprecedented ability, energy and strength. Surely few women would want to compete with husky males moving weights or swinging heavy hammers; but equipped with a robot that moves the weights or swings the hammers she can compete effectively. Thanks to the formation of capital and labor-saving technology, which are the exquisite products of the enterprise system, the American woman is free to join man in all parts and portions of the labor market. Many are taking advantage of the technological changes and are joining men at the assembly line.

During the 1970s and 80s, yet another cause began to contribute to the rising participation rates of American women. Increasing taxes and soaring inflation rates lowered the real income of most Americans. Millions fell into outright poverty as a result of chronic unemployment. It cannot be surprising, therefore, that many homemakers felt compelled to return to the labor market in order to supplement the shrinking family income. As the impoverishment continues on account of soaring deficits and rising taxation, ever more women can be expected to return to the labor market. In the strongholds of labor unions, which are also the centers of unemployment, the burden of family support is coming to rest primarily on the shoulders of women. In fact, it may be stated without exaggeration that, in centers of stagnation and decline, female participation and employment immediately adjust to the unemployment of men.

Hours of Work

The proportion of the population actually in the labor market is an important factor in the supply of labor, as are the number of hours worked per week or year, and the skill, quality, and intensity of the service rendered. There have been, and continue to be, wide divergencies within any one market, but common traits are visible in all. From some 3,500 hours a year, or 12 or more hours per day, the hours of work were reduced to some 2,000 hours a year, and 8 hours per day. The work week was shortened first through half a holiday on Saturdays and, in recent decades, by the five-day week. Paid vacations now extend to two, three, and four weeks.

Most media of communication and education are applauding organized labor and labor legislation for these improvements. Profit-seeking employers are said to favor ever longer hours, fewer holidays and shorter vacations. In the labor literature of today they stand condemned for having fought progress every step of the way.[6] If these charges were remotely correct, the pain and suffering of the underdeveloped world could be alleviated immediately: courageous labor leaders and wise legislators could eradicate poverty through collective bargaining and labor legislation. American labor leaders could point the way to prosperity in India, Sri Lanka, and Bangladesh. In reality, economic improvement depends on the construction of plants and equipment, i.e., on capital formation, which is a fruit of individual freedom and the private property order. Labor unions and labor laws erect formidable obstacles to economic development.

As to employers, there is so much good in the worst of them, and so much bad in the best of them, that they are just like other people. It behooves us to be considerate of their choices and preferences. When they seek labor they must go to the labor market and bid for a given quantity and quality of labor. They must pay the going market rate as they do for materials and supplies, water, gas and electricity. As markets change continually, employers must forever readjust to new situations and rearrange their production. Price and cost calculations clearly reveal the changes and indicate what needs to be done. In the labor market they must adjust continually to workers' preferences and choices, which, too, are visible in prices and costs. If most workers prefer a 12-hour day, employment costs per unit of output are lowest in a 12-hour arrangement. Employers who prefer less popular hours, for instance, 13 hours or more, or 11 hours or fewer, would have to pay a premium. If most workers choose eight hours per day, even the dullest employer may learn in time that it is profitable to pay heed to workers' preferences for eight hours.

Labor time reductions were induced by several very different sets of circumstances. Obviously, labor productivity on account of rising per capita investment promoted a preference for shorter hours. Workers could afford reductions in hours without painful losses in earnings. When, at the dawn of the private property order, they were facing hunger and deprivation, they chose to labor every waking moment of the day. When conditions improved as a result of rising labor productivity, they preferred shorter hours, all the way from 18 to 8.

Spreading the Work

There are circumstances leading to labor time reductions that differ sharply from those cited above. In the depth of depression when the unemployment rate is soaring, many champions of labor legislation and union power are quick to advocate “spread-the-work” schemes that would have each man do less work, rather than have some men be without jobs. Labor time reductions are presented as the best palliative for unemployment.[7]

It is obvious that such schemes make matters worse and, therefore, do not lead to labor time reductions unless government forces them on reluctant workers and employers. When a worker is laid off, or an operation is closed down, a branch discontinued, a company dissolved, it is always the least-productive, loss-inflicting unit that is idled first. Productive units that cover their costs or even earn profits need not fear shut-downs; they are fully employed through boom and bust.

Spreading the work by keeping the losers operating at reduced rates would only aggravate the losses and cause more unemployment. After all, even a loser has an optimum rate of operation at which the unit costs of production are lowest. To curtail production below this rate is to magnify his losses. Moreover, to limit the services of productive workers who are fully employed and replace them with the least productive workers who are unemployed, would cause even more business failures and more unemployment in the end. In this respect “spread-the-work” schemes are akin to union shops with “bumping schemes” that grant senior union members the right to bump younger workers regardless of ability, skill and diligence. In depressions, the union shops with bumping schemes are usually the first to go under.

During depressions unionized industries, such as automobile, steel and construction, may suffer unemployment rates of 50 percent or more. Spreading the work evenly would entail a work and income reduction of 50 percent or more for senior workers for the benefit of younger workers. It is illusory to believe that seniors would readily consent to such sharing. But even if they did, they would soon want to share in the work and income of other industries that suffer no unemployment. Of course, the sharing would have to proceed at union rates.

The mounting threat of unemployment, whether real or imagined, brings forth noisy demands for labor time reductions. They are loudest in the centers of unemployment where every fallacious explanation is gratefully accepted and every tasty panacea is warmly welcome. The responsibility for depression and unemployment may be laid on the doorsteps of a new technology called “automation,” on “sweat-shop foreign competition,” “hostile ad-minstrations,” or “greedy employers,” and other such amazing causes. But no matter what the explanation may be, the ready prescription for all is an immediate labor time reduction. The sovereign cure for unemployment is shorter hours and more leisure!

Workers who are convinced that labor time reductions provide a cure for chronic unemployment may also be led to believe that reductions in labor exertion will help to spread the work. “Slow down! Don’t work yourself out of a job,” may be their employment motto. Surely, if labor time reduction creates employment, it is easy to conclude that all types of reductions of labor effort and output are equally beneficial. Fortunately, nature is just toward man. It recompenses him for his labor, not for his leisure. It attaches the greatest rewards to the greatest efforts, not to most leisure. It grants employment to workers who are “productive,” that is, who produce more than they cost, and denies employment to anyone who costs more than he produces.

People vary greatly in ability, training, education, and application; they make different contributions to the well-being of other individuals and, therefore, earn different incomes. Some are highly productive in the rendition of services, earning million dollar incomes. Others render simple services that pay minimal wages. Some may not contribute anything at all to the production process and, for their existence, depend on individual charity and transfer payments.

Education ranks as an important element in the quality of labor. In its broadest sense it means all the preparation for life. It teaches not only how to make a living but also how to live. It may be highly productive of income wherever it produces mental improvement, teaches to obey rules and accept authority, provides knowledge and training, develops ability and skill, and motivates man to serve the needs of other people. It may be unproductive in the economic sense where it fails to make the educated person more useful in the service of his fellowmen.

American education is endowed with public interest, that is, it is manipulated, rigged and regulated by all levels of government. It is subjected to the feasts and famines of politics. During the 1950s and 1960s, when the federal government provided massive subsidies, student enrollment increased substantially, causing colleges and universities to expand in facilities and personnel. During the 1970s and 1980s, when Medicare, Medicaid and many other causes made exhausting demands on the Federal budget, the rate of increase fell dramatically, bringing stagnation and retrenchment to many institutions. As the costs to students were rising, enrollment declined, intensifying college competition for students. Many private colleges, chafing under government regulation and state college competition, are barely scraping along. Some may not survive the decade. According to the critics of private education, they are “too traditional” and “unresponsive to the educational needs of the students.” In the noise of controversy public discussion is returning to some root questions of higher education: What is the responsibility of government, especially the federal government? What kind of education should be provided? What is the appropriate institutional structure? And who should pay for it all?

The Role of Education

In a brief discussion of the supply of labor such crucial issues of higher education must remain unresolved. But it is appropriate to search for an answer to related questions such as: How does education affect the supply and employment of labor? How does employment or unemployment affect education? If education is “an investment in human capital,” as it is often called, what is its return in terms of employment and income?

Why is anyone attending a college or university? There are as many answers to the question as there are individual motives. But most of them probably can be grouped and arranged in the following order: First, many students expect higher education to improve their capacity to earn an income by augmenting the quality of their labors. Second, some students may derive immediate satisfaction from participation in college or university affairs, which makes their education a “di rect consumption service.” Many of these students prefer education in any form over idleness and unemployment, which may be their only alternative.

There is a minimum hurdle to all gainful employment, which is erected by minimum wages and fringe costs mandated by government. Currently, these costs together exceed $5 per hour. For most young Americans public education provides the training for exceeding the minimum. It makes them employable in the American labor market. But for many young people the minimum hurdle is higher than the productivity they bring to the market. Public education does not impart the training sufficient for employment; in this respect it is sadly deficient for millions of people, especially racial minorities.[8]

A public education system that fails to impart sufficient knowledge and training for some twenty percent of white youth and fifty to seventy percent of minority youth, assumes an additional function: keeping youth occupied and off the streets. It is keeping peace among men, which would soon be jeopardized if all young people were set free to roam the streets in idleness and despair. In this respect American public education is highly effective and productive as an occupation and peace-keeping force. It may be more expensive than the public support of the elderly, but it also is infinitely more productive as a guardian of peace.

Public Education and Labor Laws

American compulsory education with its truancy legislation and an army of truant officers is perfectly complementary to labor legislation. One lends strength and support to the other; labor laws depend on truancy laws for preventing mass unemployment of youth, and truancy laws depend on labor laws for denying employment opportunities to youths and keeping them in school. With more than forty million pupils enrolled in full-time elementary and secondary day schools, several million would appear on the unemployment rolls if there were no compulsory education; and several million pupils would desert the compulsory school system if there were no employment barriers. The high unemployment rates of youth released from compulsory education and the high rates of youth truancy illustrate the point. If more youths would be set free, the unemployment rate would soar, to be surpassed only by the juvenile crime rate.

Compulsory education as a peace-keeping force is encompassed not only by limits of financial cost and economic sacrifice on the part of taxpayers, but also by the willingness of youth to be restrained and regulated. Upon release from school compulsion, which cannot last forever, many youths discover the futility and inadequacy of their education, which does not make them joyous and contented members of society. College graduates may]earn that there are too many colleges granting too many degrees and that there is no room for all the graduates to work in their field of choice. As “surplus” they may not take kindly to the market system that forces them to render useful services according to consumer demand rather than allocates employment according to college degree. In frustration they may look toward government and the command system for employment according to license and degree.

Education as “an investment in human capital” is like capital as “a mere congealing of human labor”; both are garbled collections of empty terminology. An investment, in everyday terminology, means the creation or acquisition of means of production that promise safety of principal and a satisfactory return. Obviously, government expenditures on education do not promise safety of principal for government—unless the beneficiaries are deemed to be the property of government. Nor do they promise a satisfactory return—unless educated taxpayers are viewed as property of government. But even if they are, it is doubtful that the productivity gain of some people outweighs the losses suffered by others from restrictive labor laws and compulsory education. Are government expenditures on public education always more urgent and productive than the uses to which the funds would have been put if they had not been exacted from taxpayers? If productive funds are taken from corporations and put to busing uses in public education, is society rendered more productive?

To view public education as “an investment in human capital” is to confuse transfer spending with saving and investing. To spend means to expend and consume; to save and invest means the very opposite. Public education expenditures consume economic wealth, they do not create it. It is true they impart knowledge and skill to some people who may actually become more productive. But this increase in labor productivity, which is a nebulous quantity, must be weighed against the total cost of public education, which consists not only of direct expenditures but potentially also of the implicit costs of income forgone by student and family.

Moreover, public education expenditures benefit some people at the expense of others, which creates yet another factor of cost: social alienation and conflict. They divide society into two antagonistic classes: the beneficiaries who are entertained and instructed, and the victims who are forced to cover the expenses. While the former like to describe their take as "profitable in vestment," the latter always view the exactions as regrettable and unavoidable losses in material well-being.[9]

Markets and Mobility

It is difficult to ascertain whether education and training bring forth labor mobility or whether people with mobility seek more education and training. There is a causal connection that needs to be explored by psychologists and sociologists. But at this place it is significant that the supply of labor is adjusting continually to changes in the intensity and composition of the demand for labor. Labor is shifting into and out of the labor market, among employers, occupations, industries and geographic localities. It has mobility, which affects not only the allocation of labor among alternative uses but also labor productivity. It influences labor competition and, in a sociological sense, determines the ease or difficulty of occupational and social changes.

In the labor market individuals are buying or selling specific quantities and qualities of labor. Workers continually compete for available jobs, and employers are in continuous competition for labor. The result is perpetual movement and adjustment according to the choices and preferences of the participants. Labor mobility and wage determination are continuous, related processes. Wage differentials and other employment conditions may induce workers to move in search of better conditions. Some may continue to search and move about until the advantage of a move no longer warrants the necessary effort and cost. The end result is not perfection in the allocation of labor, but usually an improvement over previous conditions. After all, every worker seeks to reduce his disutility of labor and improve his conditions.

Workers enter upon many types of changes requiring employment mobility, interfirm mobility, occupational mobility, industrial mobility, or geographic mobility. One category does not exclude another; a single job change may represent a combination of two or more movements. An unemployed Detroit automobile worker may move to Dallas, Texas, and find employment as a doorman at a downtown hotel. A young steelworker from Pittsburgh may move to San Diego, California, to seek employment as a plumber in the construction industry. A pretty teacher with a brand new Pennsylvania state college diploma may move to South Carolina, find employment as an accounting clerk, and then move again to become assistant librarian in a community library. She has mobility and flexibility that are considerably greater than in most countries of the world.

According to some estimates, American labor mobility is surprisingly high with a proportion of job changes each year exceeding one-tenth of the total number of employees.[10] Many workers change employers several times a year. But a substantial proportion of Americans also have strong job attachments as over one-third of all workers are known to be continuously associated with the same employer for at least ten years. In times of business depression the job attachment tends to rise significantly; during economic booms when business is bidding feverishly for labor, the proportion of voluntary separation and job shifting tends to rise.

Job changes that involve geographic movements are considerably less common than occupational and industrial changes. They entail leaving the home community with its circles of family and friends. There are expenses involved in moving and, above all, the fears of the unknown in a new environment. Nevertheless, throughout most of American history millions of settlers pushed west for opportunity and fortune, giving rise to a particular kind of individual, the pioneer or frontiersman. His psychology may still be with us today, long after the frontier disappeared late in the nineteenth century. His daring spirit may survive in his great-grandchildren who are seeking new horizons in other endeavors.

The ability to move about in the labor market is by no means evenly distributed among people. There is a direct relationship between youth and all types of mobility. Older workers are less likely to change in occupation and industry, or move across state lines. They may prefer the psychological comfort of routine and familiarity to higher productivity and income. But above all, countless regulations and restrictions designed to protect the elderly actually make it rather hazardous to venture on job changes.

Contrary to popular opinion, there is no inherent discrimination in hiring against older workers; after all, most business executives in charge of hiring are older people. But there are institutional conditions that make them more expensive than young people, and onerous restrictions that make it difficult to dismiss them and therefore risky to hire them. They may have "tenure" in their jobs, seniority in choice of jobs, shifts, vacations, pensions, and so on. No matter what their productivity may be, they may be senior members of their union local, last to be laid off, first to be recalled, and ever ready to "bump" younger workers out of their jobs. They are entitled to maximum unemploymentcompensation and generous union subsidies in exchange for minimal efforts for their employers. Naturally, employers seek to avoid them whenever they can.

Mobility rates also vary according to occupation and profession. They tend to decline as personal productivity rises. Professional people and business executives generally make fewer job changes than laborers. Their incidence of layoff and unemployment is practically none. After all, there is no minimum wage for corporate executives, no fringe mandates that raise their costs, no union rules that exact more pay for less work. Job changes by professional people generally are voluntary moves in search of a better life and brighter world. Because of their substantial investment in professional training they have strong attachment to their professions. When they move they are likely to move geographically, even across state lines, reflecting the broad scope of their national markets.

Freedom vs. Control

The vast majority of Americans never experience unemployment. They labor from early youth to old age without ever being told that they are not needed or wanted. They cultivate fields and cover the earth with their structures, they sail the oceans and cruise the stratosphere, laboring for comfort and plenty.

They do not fear unemployment, for there is work to be done, every waking moment of their lives.

And yet, millions of human beings linger in chronic unemployment and despair. They are outcasts of the body politic where politicians legislate higher wages and greater benefits and union agents demand more pay for less work. They are the primary victims of political superstition. []

The idea of a fair, just, or reasonable wage is very appealing. But what is fair, just, and reasonable under the conditions prevailing at a particular time? Since the dawn of history, buyers and sellers have had very different ideas regarding the concrete meaning of these words. How are such differences to be resolved? There is only one valid and objective criterion: the free market, which, under the consumer’s whiplash (and the consumer means everyone), forces both buyers and sellers of labor to conform to the basic reality of the situation, the current level of productivity.

The Guaranty Survey, July, 1956

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Churchpeople, Socialism, and Capitalism

OCTOBER 01, 1984 by John K. Williams

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In 1908, some three decades before he was to become Archbishop of Canterbury, the English churchman William Temple contributed an article to the prestigious journal, *Economic Review.* He had no doubts as to what economic system should commend itself to Christians. Wrote Temple: "In the epistle of the Ephe-sians . . . [Paul] preaches the fullest scheme of evolutionary socialism, so far as all fundamental points are concerned, that has yet to be con ceived by man. Socialism is the economic realization of the Christian Gospel . . . . The alternative stands before us—Socialism or Heresy; we are involved in one or the other."[1]

William Temple was not alone in his espousal of socialism in the name of Christianity. In 1915 Karl Barth, one of the theological giants of the twentieth century, asserted that a "true Christian must be a socialist."[2] Barth's thinking on this issue did not change: in 1951, for ex ample, he wrote that capitalism "not only allows, but demands in principle, that men make a mere instrument, a means to their own ends, of other men and their work."[3] In 1919 Paul Tillich, another revered twentieth century theologian, called upon Christians "to enter into the socialist movement in order to pave the way for a future union of Christianity and the socialist social order";[4] near the end of his life, when asked by a student whether he still supported socialism, Tillich reported that he did, insisting that socialism "is the only possible economic system from the Christian point of view."[5] Reinhold Niebuhr, probably the most influential Protestant theologian in the United States of America for many decades, insisted in 1931 that he espoused the revolutionary socialism of Marx rather than the reformist, evolutionary socialism of the early Christian socialists. He denounced Christians who did not regard a Marxist “class struggle” as a “fact of history”[6] as either naive or willfully perverse.

Recent Pronouncements

More recent theologians have continued the tradition of linking Christian theology and values to socialism. “Liberation theologians” such as the Latin Americans Juan Luis Segundo[7] and Gustavo Gutiérrez[8] have explicitly incorporated Marxist categories and theories into their theological systems. “Political theologians” such as Johann Baptist Metz,[9] Jurgen Molt-mann,[10] and Dorothee Sölle[11] have done the same. Publications of such ecumenical bodies as the World Council of Churches, the U.S. National Council of Churches, the British Council of Churches, and the Australian Council of Churches, are, when political and economic issues are addressed, invariably antagonistic to capitalism and sympathetic to socialism.[12]

Recently, however, voices of dissent have been raised in many mainstream churches and beyond. In 1983 a publication of the Episcopal Commission for Social Affairs of the Canadian Conference of Catholic Bishops, *Ethical Reflections on the Economic Crisis,* was castigated by many informed economists for the eccentric economic theories therein embraced.[13] Some seventeen English economists and sociologists of stature contributed, in 1984, to a volume arguing that numerous studies and reports issued by Christian denominations in England and by the British Council of Churches were “sloppy, ill thought out, ignorant, one-sided, addicted to secular fashions, uncritical of conventional wisdom, hysterical . . . and uncharitable to those who disagree.”[14] An Australian publication bearing the ecumenical *imprimatur* of four church organizations, Catholic and Protestant, and urging the creation of a socialist Australia was, also in 1984, subjected to close examination and devastating criticism by several Australian economists, philosophers, and political scientists.[15] Scholarly defenses on religious grounds of political freedom have proliferated in the last decade, seriously challenging the claim that Christian believers must embrace and advocate a socialist economic order.[16]

The debate continues. That what until recently was a virtual monologue has become a debate is encouraging. It is important, however, that Christian people and other men and women of goodwill continue to challenge those who assume or assert that religious commitment and moral seriousness lead to support for socialism and opposition to capitalism. Too much is at stake for men and women who value the freedom philosophy—in particular church-people numbered among such men and women—to rest their case or to assume that religious enthusiasts for socialism can now be ignored. The moral case for a market economy and the free society needs constant statement.

Defining Terms

"How many a dispute could have been deflated into a single paragraph if the disputants had defined their terms." So commented the philosopher Aristotle in the fourth century B.C. While many of the disputes between supporters of a socialist economy and those supporting a capitalist economy cannot, for the most part, so be deflated, many churchpeople critical of capitalism have not displayed much rigor in defining the economic system they so abhor—or, indeed, the economic system they prefer. Some clear thinking as to what a capitalist or a socialist economic system *is* necessarily precedes a moral evaluation of the systems. In fact, such thinking may well be a prerequisite for moral reasoning: the great French mathematician, philosopher, and theologian Pascal was not far off the mark when he wrote, *"Travaillons donc a penser bien; voilà le principle de la morale."* ("Let us work hard at trying to think clearly; herein lies the source of moral conduct.")

An economy or economic system, be it primitive or modern, socialist or capitalist, is a social system through which people cooperate in using what they *have* (in terms of raw materials, land, labor, skills, tools, and so on) to produce what they *want.* All such systems face the same problem: what people have is limited, but what people want is limitless. The use of scarce re sources to produce one good "costs" alternative uses of the same resources to produce other goods. How, then, so to allocate scarce resources that what people value more is produced at the "cost" of what people value less?

Human beings have devised only three means whereby scarce resources are allegedly so allocated: tradition, political processes, and market forces.

Tradition as the determiner of resource allocation is typical of small, closely-knit, essentially static tribal societies. The reason for this is simple. The *information* necessary for the allocation of resources is readily available and slow to change. Members of the tribe *know,* by and large, what raw materials are available, what skills the tribe possesses, and what the tribe wants.

Comparable information is not, however, easily obtained in a large, complex society. In such a society people's wants are many and varied. Individuals possess different skills, and specialize in producing different goods and services. Rapidly changing technologies make some skills redundant and the acquisition of new skills an imperative. The raw materials available are many, are distributed globally, and are constantly changing in their relative scarcities. How to *know*, given such complexity, what people want? How to *know* the totality of skills upon which a society can draw? How to *know* what new skills are appropriately developed? How to *know* what raw materials are available and their changing relative scarcities? *How, in sum, to collate, synthesize, and relate production to rapidly changing information diffused not simply among the members of a given society but among the countless people making up a global network of interdependent societies?*

A Task for Government

The socialist answer is that only government can conceivably carry out such a mammoth task. The sheer complexity of a modern society makes expert centralized planning an utter necessity. A tribal society may be able to allocate scarce resources and coordinate its economic activities by tradition. A moderately complex society may be able to entrust resource allocation and economic coordination to private individuals. Today, however, the information needed to allocate resources and coordinate productive effort is so unspeakably complex and so widely diffused that detailed planning by full-time experts is required. A politically determined allocation of resources, and politically coordinated productive enterprises, are demanded if people's wants are to be satisfied. *A society allocating scarce resources by political processes alone, a society coordinating its economic life by political processes alone, is a purely "socialist" society.*

The defenders of a capitalist economic system retort that such a solution to the problem posed by diffused and constantly changing information fails even to grasp the immensity of that problem. The information required to coordinate a modern economy is so complex and so diffused that *no one can collate or synthesize it.* Indeed, much of this information takes the form of a "knowing *how*" rather than a "knowing *that*," and in principle defies systematization. Information as to individuals' wants is essentially private, and while past wants may be capable of being inferred from a detailed record of individuals' past behavior, *present* wants cannot be so determined. Paradoxically, the more complex a society becomes, the less manageable its economic activities are.

Yet, an unmanageable system can work very well indeed! In and through the seemingly random activities of individuals seeking to ira-prove their own situations, what people *want* encounters what people are willing and able to *do*. The resulting possibilities are summarized in a huge catalogue of alternatives, *with a price appended to each available option*. Information diffused through the members of a given society, and even beyond that society, is thus made available to all decision-makers, from the humblest consumer to the most "exalted" business executive.

To Obtain Optimum Use of Scarce and Valuable Resources

The ever-changing relative money prices generated by the ongoing processes of supply and de mand make available, in an appropriately distilled form, a totality of information no experts could ever acquire. A rise in the relative price of a good informs consumers that a good is becoming scarce and should therefore be used more sparingly; the same signal informs producers that more of the good, or some substitute for the good, should be produced. This information as to what ought to be done to accommodate the new social situation is linked with *incentives* so to act: a rising relative price encourages consumers to be more frugal in their use of a good or to seek out an alternative, and encourages producers to make available more of the good, or a substitute for the good. People, in short, are able to discover what to do, and are encouraged to do what is required, if the resources they possess are to produce the goods and services they want.

The notion of a system which is the creation of intelligent action but not the outcome of deliberate design is to some people (especially intellectuals) a distressing notion. The claim that such a system can draw upon a totality of information no experts could collate or synthesize is an affront to human vanity. Yet the notion is familiar. No "experts" met, meditated, and produced language. "Experts" have yet fully to understand or systematize the subtlety and order—the "deep grammar"—of language. Yet ordinary people (whose forebears, by experiment and experience, gave birth to language) use it, with great effectiveness, every day.

So with the market. The market is not, despite the name, a place. It is rather the total set of possible exchanges of goods and services human beings can engage in, the voluntary cooperative endeavors in which they engage, and the humble reality of the ever-changing relative money prices these myriad events generate. *A society allocating scarce resources by market forces alone, a society coordinating its economic life by market forces alone, is a purely "capitalist" society.*

Assessing "Socialism" and "Capitalism" in Theory

The most obvious, albeit frequently neglected, contrast between a socialist and a capitalist economy has already been made. Socialism presupposes Promethean figures capable of acquiring knowledge beyond the reach of ordinary mortals. Capitalism presupposes that all human beings are finite creatures who know but in part. There *are* no all-wise führers or class-conscious workers or liberated intellectuals capable of mastering the information necessary to coordinate the productive efforts of the masses. Fallible human beings who attain political office remain fallible human beings, no more capable of directing a modern economic system than is the humblest citizen wise enough to know how little he knows. Those who make the plans in a so- called "planned economy" or who give the commands in a so-called "command economy" simply do not, and cannot, know enough to make plans or issue commands drawing on the information informing and guiding a capitalist economy. For these people are but people. They are not gods.

"But do not the managing directors of large companies make plans and issue orders? Are not the captains of industry 'really' in charge of capitalist nations, determining where the ship of state shall sail and dictating the destination to which the passengers shall be taken?"

The questions are familiar. The answers should be obvious. *How* do managing directors make their plans or decide upon their orders? *How* do captains of industry set their course? *They commune with changing relative money prices and seek to optimize their profits.* They heed, in other words, the instructions of the masses. For it is the fickle masses who, by their decisions to buy or to abstain from buying, ultimately generate these prices. They demand more of some good; the alert "captain of industry" perceives that the relative price of this good is rising and feverishly redirects his crew's efforts to comply with the demands he correctly has decoded. Consumers tire of a good; the managing director perceives that the relative price of this good is falling and sets himself to redirect the resources his company possesses. In each case, the "leader" *knows* what to do, and if not led by that knowledge, loses his position. The ostensible leader is, in truth, the led.

The Capitalist Economy

Indeed, this insight suggests the second contrast between a socialist and a capitalist economy. Not only does capitalism begin with the stark fact of human ignorance, it begins with equally stark fact of human selfishness. It challenges not simply the socialist assumption that somewhere, somehow, some person or set of people is capable of knowing what ordinary mortals could never know, but the further assumption that such people would, if controlling an economy by political means, direct production so that it benefited the multitudes no less than themselves. The all-wise planners are also all-good.

Not so the decision-makers in a capitalist economy. They are assumed to be no better and no worse than anyone else. They will put their own interests, and the interests of those nearest and dearest to them, before the interests of anyone and everyone else. Yet, as noted, men and women immediately responsible in a capitalist economy for the deployment of resources *must*, if they successfully are to further their own interests, heed and obey what other people pursuing their own interests demand, as revealed in and through changing relative money prices. No paragons of unearthly virtue, impartially noting the preferences of all and directing production without giving undue prominence to their own preferences, are presupposed.

Indeed it is possible to read Adam Smith's justly famous attack on the politically controlled economy of mercantilism and defense of the market-controlled system of capitalism, as a commentary upon human frailty and sinfulness. Businessmen "seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."[17] Politicians are but "insidious and crafty animal[s]" incapable of considering long-term goods, being addicted to short-term benefits, "the momentary fluctuations of affairs."[18] Ordinary people foolishly "enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies . . . [and] are commonly dissatisfied with the return of peace, which puts an end to their amusement . . . ."[19] Truly, "all have sinned."

Human beings are finite and human beings are "fallen." So asserts Christian orthodoxy, and so, in other terms, assert most of humanity's religious traditions. Socialism denies this assertion. It postulates virtually omniscient, omnibenevo-lent beings who know what ordinary mortals could never know and are marked by an impartiality ordinary mortals cannot attain. Capitalism, conversely, begins with human beings as they are, coordinating the self-interested actions of self-interested people so as to produce an unintended beneficial outcome, and enabling the actions of ignorant people to be informed by more knowledge than such people could ever individually acquire. It seems odd for churchpeople to applaud a system presupposing the falsity of a basic Christian teaching—indeed odd for any person to applaud a system presupposing the falsity of what seems so evidently true.

Assessing "Socialism" and "Capitalism" in Practice

When William Temple asserted that "socialism is the economic realization of the Christian Gospel," socialism was, by and large, a pipe-dream. Today some fourscore regimes describing themselves as socialist exist. The bare bones of theory have taken on flesh; the ideal has become incarnate.

It should, indeed *must*, be conceded that no purely socialist societies exist, the allocation of scarce resources being determined *solely* by political processes. Nor for that matter do any *purely* capitalist societies exist, this allocation being ef-fected *solely* by market forces. The purely socialist and purely capitalist society are, in Max Weber's expression, "ideal types." Yet existing societies approach one or the other of the two models. In thissense the United States of America, Australia, and Hong Kong can be spoken of as essentially capitalist societies and the Soviet Union, mainland China, and Tanzania be spoken of as essentially socialist societies. Hence, even granting the non-existence of pure socialism or pure capitalism, comparisons can still be made.

Productivity

The argument was proffered earlier about the impossibility of socialist planners collating, synthesizing, and directing production by reference to the totality of information diffused throughout a society, but available, in a capitalist society, in the distilled form of relative money prices. If that argument holds, one would expect socialist economies to be grossly inefficient in so allocating scarce resources that people's wants are satisfied. Observation does not disappoint this expectation!

In the late 1960s Paul Ehrlich lamented in *The Population Bomb*[20] that men and women “acquainted with the available evidence” agreed that India could never be self-sufficient in food. He quoted, and agreed with, Louis H. Bean, who said, “My examination of the trend on India’s grain production over the past eighteen years leads me to the conclusion that the present 1967-1968 production . . . is at maximum level.”[21]

Today India is self-sufficient in grain. During the 1970s massive institutional reforms were implemented. From 1947, when achieving independence, India’s leaders have been avowedly anti-capitalist, opting for a centrally planned, socialist economy. Tariffs and quotas have controlled imports; extensive subsidies have controlled exports. Wage and price controls have been ubiquitous. Steeply progressive taxation rates have allegedly redistributed wealth. “Five year” plans have prescribed detailed programs of investment and economic development. And most people have gone hungry.

Hence, during the 1970s agriculture was deregulated and essentially entrusted to market forces. Price controls were lifted, food products being allowed to find their market pricing levels. Farmers were allowed to determine what they would produce by reference to anticipated returns, rather than being required to comply with the edicts of central planners. Taxation reforms were implemented so that farmers could retain more of the income their planning and efforts created. Production increased, being sufficiently large to keep the general food price reasonably low. Farmers’ incomes simultaneously increased. By 1977 India was actually exporting grain and agonizing over the welcome problem of how best to store surplus crops.

Simply, the market worked.

The Market in Sri Lanka

It worked also in Sri Lanka. When Sri Lanka achieved its independence it, like India, opted for a socialist economy. By 1977 the nation stood on the brink of ruin. Yet in that year’s presidential elections the United National Party’s leader, J. R. Jayawardene, called for an abandonment of socialist policies. When he and his party assumed of-rice, government was consuming 70 per cent of Sri Lanka’s wealth, as measured by the so-called Gross National Product. Tax cuts and drastic reductions in government spending reduced that amount to under 40 per cent. Agriculture was restored to the free market; the government’s monopoly on transportation was ended; even part of the postal system was sold to private enterprise. Over one hundred and twenty foreign investment projects were approved. In five years Sri Lanka was enjoying vastly increased agricultural production, a 50 per cent increase in that admittedly strange measure the National Standard of Living, and in 1982 a return of Mr. Jayawardene's government with an 80 per cent majority and a mandate further to move the Sri Lankan economy toward capitalism. Again, the market had triumphed.[22]

It is therefore little wonder that in socialist states—in Yugoslavia, Hungary, Poland, mainland China, and even Soviet Russia—the most interesting and promising economic experiments relate to an increased reliance upon the market forces. In particular, food production has been deemed, it would seem, too important to be entrusted to "scientific socialism"! As is well known, the main productive units of Soviet Russia's state and collectivist agricultural sectors—the *Sovkhoz* and the *Kolk-hoz* respectively—have long been notoriously inefficient, the tiny three per cent of cultivated land returned to private control producing thirty per cent of the meat, milk, and green vegetables, thirty-three per cent of the eggs, and sixty-one per cent of the potatoes available to feed the men, women, and children of Soviet Russia.

Perhaps the most startling manifestation of such experiments is a volume of essays recently published by mainland Chinese economists: *China's Search for Economic Growth*.[23] The contributors redefine "authentic socialism" in terms of the principle, "From each according tohis ability; to each according to his *work*,"[24] laud the virtues of saving and of capital accumulation,[25] and deride egalitarianism as an evil doctrine which "protects the backward, obstructs the advanced, frustrates the enthusiastic, lowers working efficiency, and is, in general, a hindrance to the realization of socialist modernization."[26]

Four Little Dragons

Perhaps the productive efficiency of capitalism is best perceived by comparing the economic situation of the "four little dragons"—Hong Kong, Singapore, Taiwan, and South Korea—with the sorry plight of Tanzania.

The "four little dragons," capitalist societies, are surging ahead. During the 1970s they posted an annual growth rate of 9.4 per cent. With only 1.4 per cent of the world's population, these nations—enjoying sparse natural resources—produce 6 per cent of the world's manufacturing exports. In Singapore, real *per capita* income has doubled every decade; in Hong Kong, real *per capita* income has increased sevenfold since 1946; and South Korea's *per capita* income is double that of resource-rich North Korea.

Yet, compare the situation in Tanzania. Prior to the advent of President Julius Nyerere and his particular version of socialism, Tanzania enjoyed a robust economy and thriving agricultural bases, actually exporting maize. Agriculture was collectivized in the name of "agrarian reform"; the country, as a result, is now utterly dependent upon foreign aid (of which socialist Tanzania has received more *per capita* than any other Third World Nation) for the most basic of foodstuffs. Output *per* worker has declined 50 per cent over a single decade. The government bureaucracy, however, has increased by 15 per cent *per annum,* doubling in under a decade. Of the more than three hundred industries socialized by president Nyerere, nearly half were bankrupt by 1975; most of the others now operate at a loss, consuming more scarce resources than their output warrants. Life for the masses has become, if not brutish, certainly nasty[27]

Such "materialistic" concerns may seem a matter of indifference to many churchmen extolling the virtues of socialism. But man—*adam*—is of the earth—*adamah;* the book of Genesis has it right. People do not live by bread alone, but they need bread if they are to live at all. The hungry cannot be fed until food is produced; the naked cannot be clothed until clothing is created; the destitute cannot be sheltered until bricks are made and houses are built. Talk about an "ethic of distribution" is at best self-indulgent and at worst sheer impertinence if divorced from an *ethic of production.* And the evidence is clear, the evidence is concise, the evidence is conclusive: *a socialist economy is simply unable so to allocate scarce resources that the most basic of human needs can be met.* An alleged concern for the needy inexorably leads to the espousal of that economic system which historically has produced sufficient wealth to transform the very nature of poverty. And the name of that system is capitalism.

Socialist churchmen who read to their congregations the parable of the judgment of the nations found in Matthew chapter twenty-five might do well to commune with the plethora of evidence available as to the relative success of a capitalist economy and a socialist economy in producing food and clothing and shelter sufficient for all, quietly read the parable yet again, and reconsider their commitment to socialism. Minimally, they might ask why it is they are consumed with an abhor-fence of the very economic system which, to date, has best done what they profess to value most.

Yet, economic efficiency is not and cannot be the entire story. As it happens (and as Adam Smith pointed out over two hundred years ago) the institution of slavery is a singularly economically inefficient social institution. Suppose, however, it contributed to economic efficiency. What then? If Egypt's Pharaoh had established to the satisfaction of Moses that the continuing enslavement of the children of Israel was necessary for Egypt's economic well-being, would Moses have thanked him for the information, sighed with relief that he had not unintentionally wrought great harm, and composed a little song entitled, "Don't Let My People Go!"?

Clearly, further issues have to be considered.

Democracy

Not all capitalist societies are free societies, Indeed, not all people who have defended the view that only market forces can allocate scarce resources so that people's wants are least inadequately met, have even *defended* the free society. The Phy-siocrats who preceded Adam Smith and who coined the motto, *"Laissez-faire, laissez-passer"* ("Let things alone, let things pass") advocated absolute monarchy: such a form of government, they argued, would be consolidated and made more stable if the monarch recognized the inexorable laws which govern economic affairs, did not intervene in the market, and thereby allowed wealth to be created and his people to enjoy prosperity.

Societies can be identified today, which, although numbered among those nations clustering around the ideal type of economic system described above as "pure capitalism," do not respect a body of civil rights, both in government and against government, enjoyed by all. More precisely, not all capitalist societies existing in the past or in the present enjoy institutional provisions for political opposition and for a change in government by universal franchise and a body of civil liberties protected from the whims of any given government.

Yet, while not all capitalist societies are free societies, *all free societies are capitalist societies. No* socialist societies are free societies. More: if non-free societies are divided into authoritarian societies and totalitarian societies, *all totalitarian societies turn out to be, or to have been, socialist* *societies.* Authoritarian capitalist societies do exist and have existed, but no totalitarian capitalist societies do exist or have existed.

Socialism enjoys a negative correlation with political liberty and a positive correlation with totalitarianism. Capitalism, however, seems to be a necessary, but not a sufficient, condition for political liberty.

It is obvious why capitalism is incompatible with totalitarianism. Capitalism demands, by definition, forces and institutions detached from government. It depends upon individual men and women seeking to improve their own situation in their own ways. It depends upon the free meeting of what people want with what people are willing and able to do. It depends upon people being free to perceive opportunities to improve their situation and to devise and implement means which, they believe and hope, will enable them to avail themselves of these opportunities. It depends upon people being able to form voluntary associations and to devise forms of cooperation that will enable them to achieve together what they could not have achieved alone.

Total Political Control

Totalitarianism demands the *subordination of all human activities to political control.* Indeed politics, in a totalitarian society, are omnipresent. No social institutions are, ideally from the totalitarian's viewpoint, non-politicized. Religious institutions, social institutions, legal institutions, academic institutions, the family—*nothing* falls outside the province of political action and control. The totalitarian state ascribes to itself the attributes of God: omniscience, omnipotence, and omnipresence. Authoritarianism does *not* seek to make the political omni present; rather, *it seeks to make the political taboo!* So long as an individual's actions do not impinge upon the political, considerable liberty can be enjoyed. Economic exchanges can be made. Voluntary associations can be formed. Newspapers and books can be published. The one proviso is that no attempt is made to challenge the political *status quo.*

Yet, while a capitalist economy is compatible with political authoritarianism, a tension exists. The existence of institutions not directly controlled by government makes opposition to a given government possible, albeit dangerous. More importantly, people begin to desire in the political sphere the sovereignty they enjoy in the economic sphere. Why should not those people immediately controlling political institutions be as subject to the wants of the people as are those enjoying immediate control of resources in the economic sphere? The seed of liberty planted in the economic field increases and multiplies and soon takes root in the political field. The authoritarian regime either drifts toward totalitarianism or is supplanted by the free society.

Vital Economic Liberty

Economic liberty and political liberty strengthen and reinforce each other. They are twins, although not “Siamese twins.” One twin—economic liberty—can exist without the other—political liberty—although strangely, political liberty cannot exist without economic liberty. Authoritarianism is threatened by the presence of economic liberty. Totalitarianism cannot tolerate the presence of such liberty at all.

The Christian believes in a God Who made man in His own image, a God Who endowed His creature with something of the perfect freedom that is God’s alone. Made in the *imago Dei* human beings *are* free: free to dream their own dreams and struggle to make them come true, free to formulate their own visions of the “good life” and strive to realize them, free to set their own goals and seek to achieve them. It is strange when those who profess to serve that God—a God Who simultaneously loves His creature yet so reveres that creature’s autonomy that He allows him to choose damnation—willingly disregard human liberty, claiming, in effect, the “right” coercively to “correct” dreams they judge foolish, to veto visions of the “good life” they judge inadequate, and to proscribe goals they judge unworthy. It is stranger still when one remembers that such churchmen claim to follow One Who prefers to “stand at the door and knock”[28] rather than use the battering ram of coercion. Strangest of all is the assumption of churchmen advocating a “planned” or “command” economy that they shall be numbered among the mighty who draw up the plans and issue the commands rather than among the planned and the commanded.[29]

Socialism is, for many, the appropriate stance of the revolutionary spirit which yearns for what could be and is discontent with what is. Yet, rule by proud people who claim to know what no one can know and promise to do what no one can do is not new. Rulers dining at tables laden with the produce of those they have enslaved are not new. The tired masses waiting in queues for bread are not new. The suppression of human liberty is not new. One law for the rulers and another law for the ruled is not new. If this be revolution it is the revolution of the full circle and the return to what was before the dream of freedom burst into flame and the tyrants fell and the "rights" of all people were proclaimed.

Conclusion

There is a revolution men and women of goodwill can seek. Other revolutions ended in terror or tyranny, or resulted in Napoleonic empire. This revolution is never finally realized. It is ongoing, continuous, dynamic. It challenged at its beginning, and has challenged ever since, all dominations and tyrannies, all bigotries and prejudices, all predatory institutions debasing and enslaving the free spirit of humanity. It cries that people are not chattels, not pawns on a planner's chessboard. It is therefore sacrilegious to enslave them, infamous to engineer them, criminal to degrade them and rob them of the liberty that burns within their being.

In truth no tyrant can expropriate that liberty. If it die, people have themselves quenched it; if it be absent, people have themselves thrown it away; if it be not perceived, people have closed their own eyes. For that liberty is the gift of the Creator, and its destruction can be wrought only by those to whom it was given.

God help us not so to destroy it. God help us and our children's children if we do! []

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4. P. Tillich *et al.*, "Der Sozialismus als Kirchenfrage," in *Gesammelte Werke, Vol. H*, Paul Tillich (Stuttgart: Evangelisches Verlasgwerk, 1962), p. 19.

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18. *Ibid.,* p. 435.

19. *Ibid.,* p. 872.

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22. An admirable study of the Sri Lankan dalliance with socialism is found in L. J. M. Cooray, *The 1983 James Peiris Memorial Lecture* (The Sri Lanka Foundation Institute).

23. X. Dixin (ed.), *China's Search for Economic Growth* (Beijing: New World Press, 1982).

24. *Ibid.,* pp. 19, 102, 104, 107.

25. *Ibid.,* p. 109.

26. *Ibid.,* p. 122.

27. T. Sowell, *The Economics and Politics of Race* (New York: William Morrow, 1983), p. 240.

28. *Revelation* 3:20.

29. *Matthew* 23:12. *Philippians* 2:6-11 also merit contemplation.

A Reviewers Notebook: My Years With Ludwig von Mises

OCTOBER 01, 1984 by John Chamberlain

If economics is a dismal science, you would never know it from Margit von Mises' book about her husband, *My Years With Ludwig von Mises*, which has just been republished, with important additions, by the Center for Futures Education, Inc. (P.O. Box 489, Cedar Falls, Iowa 50613, 230 pp., $12.95 cloth; $7.95 paperback).

Margit von Mises has all along disclaimed any intention of "answering" economic problems in her book. But her whole story is living testimony to the truth that interventionism, if persisted in by governments, can only have disastrous consequences. She happened to be married to a fighter, with the inevitable consequence that her book is a battlefield report as well as a very human story of life with a private person who kept his personal feelings to himself.

Before her marriage to "Lu," Margit had a life as an actress on the North German and the Viennese stages. A widow with two children, she had managed to support herself after leaving the stage by translating English and American plays for presentation in Central Europe. She also wrote short stories. She has an unfailing dramatic instinct in anything she writes. Curiously, though she was married to a man who had sedentary habits (he couldn't be bothered with tennis because he had "no interest in the fate of the ball"), her method is wholly appropriate to what she has to tell.

The dramatic centerpiece of the book is the account of a great exodus. Margit first met Lu in the mid-die Twenties, but thirteen years had to pass before he could see his way clear to propose a marriage. This was in 1937. Lu had already left Vienna to take an economic professorship in Geneva at Dr. William Rappard's Graduate Institute of International Studies. The date for the wedding was set for April of 1938, but on March 14 Hitler marched into Vienna. The problem was how to get Margit and her daughter Gitta out of Austria, but somehow that was managed. The wedding came in June, not April.

Mises' Academic Career in Europe

"Austrian" economics, even in the heyday of Carl Menger and Bohm-Bawerk, had always had to contend with the German "historical" school which had no valid theory of value. (Mises had written about this in *The Historical Setting of the Austrian School of Economics,* recently pub lished in pamphlet form by the Ludwig von Mises Institute of Auburn University.) Mises had to build a reputation as an economist without "official" support in German and Austrian university circles. His famous Vienna seminar was held in the offices of the Vienna Chamber of Commerce, for which Mises worked while writing his early books.

Teaching at Rappard's Institute in Geneva was the first academic job that Mises had really liked. But after the fall of France in 1940, life in Switzerland seemed unbearably constricted. The problem this time was how to get through occupied France to Lisbon in Portugal. It was a problem faced by other intellectuals from Central Europe who had incurred the Nazis' displeasure. Margit tells the story of a ticklish escape with a fine attention to the details. They had to make a great circle in France, with occasional backtracking to avoid German troops. At the Spanish border they were held up by customs officers who were only accepting French, American and English passports for passage. Mises had to go to Toulouse for a valid visa for himself and Margit and for other refugees from Central Europe that had been on the bus through France.

Mises could have gone to California, where he had an offer of a six-month job as a lecturer, but he and Margit chose to stay in New York City. There was a two-month interlude in Mexico. Margit Mises describes this exciting but poverty-stricken country as it has never been described before. The trip to Mexico was only the first of many Mises incursions into Latin America, where his non-interventionist economics has had great appeal to dissident intellectuals who would like to get away from their statist regimes. It is a Mises disciple, Dr. Manuel Ayau, who founded the Francisco Marroquín University in Guatemala to teach Austrian economics to bigger and bigger classes. Ayau will make it difficult for Nicaraguan Sandinistas and Castroites to take over in his country.

The New York Story

The Mises New York story is intimately bound up with the rise of the conservative movement that finally placed a Mises reader named Ronald Reagan in the White House. It is far more than a domestic chronicle that Margit Mises has undertaken in this section of her book. There is a full account of the Mises seminar at New York University that meant so much to such Mises scholars as Murray Rothbard and Israel Kirzner. Mises had plenty of enemies, but he had great and enduring friendships. Leonard Read brought him frequently to The Foundation for Economic Education for lectures and seminars. And Harry Hazlitt and Larry Fertig took it as a special privilege to find backing for Mises projects.

It was Hazlitt who brought Mises' great work, *Human Action,* to the attention of Eugene Davidson at the Yale University Press. Davidson published it with great success, but lost his job before a new edition could be brought out. The new edition was incredibly botched, and Mises was even denied the opportunity to have a look at the page proofs. Was there sabotage involved in the botching? Mises was angry in an ice-cold way, and for the first time in his life he had sleeping problems. Margit Mises asks one question: "Was Eugene Davidson the only person whose support had brought *Human Action* to life?" It wasn't until Henry Regnery had brought out a new edition of *Human Action* that Mises slept soundly again.

Rewarding Originality

Murray Rothbard has said that Mises was badly rewarded in America even by those who were willing to give him a public forum. This may be true enough, but things hadn't been much different in his native Austria when it came to rewarding originality. Mises has recalled that Freud was laughed at in Vienna, and Gregor Mendel carried on his genetic experiments in an "intellectual desert." The aging pioneer of marginal utility, Carl Menger, when told about the Mises Vienna seminar discussions, remarked that "when I was your age, nobody in Vienna cared about these things."

All in all, Mises has had attention—the current rout of the Keynesians in academic circles is proof that his non-interventionist doctrines have had their effect. In an entirely new chapter in her book, Margit Mises sketches the story of the spread of her husband's influence. The chapter takes thirteen closely-packed pages.

Other new additions to the book include a letter from Professor Hayek and an appendix containing impressions and memories of still-living students who had attended the original Mises Vienna seminar.

Mises once said that “truth persists and works, even if nobody is left to utter it.” But in his case there are plenty left to give utterance. []

Book Review: Free Banking in Britain: Theory, Experience, And Debate, 1800-1845 by Lawrence H. White

OCTOBER 01, 1984 by Philippe Nataf

(Cambridge University Press, 510 North Avenue, New Rochelle, N.Y. 10801) 1984 • 171 pages • $29.95 cloth

For decades two closely-related ideas have been taken for granted. The first holds that business cycles stem naturally from within the capitalist market economy; and the second, that free banking is a most unstable system, as evidenced by pre-Civil War America. Significantly, near unanimity on these questions has not always existed; during the 18th and 19th centuries prestigious economists thought otherwise—frequently the exact opposite. One counts Americans, British and French among them, including the Physiocrat DuPont de Nemours, Adam Smith, J. B. Say, Mushet, Parnell, Gilbart, S. Bailey, H. C. Carey, Hildreth, Courcelle-Seneuil and the unjustly forgotten friend of Bastiat, the encyclopedic Charles Coquelin, with his numerous disci ples.

The great merit of Professor White's book lies in the challenge it presents to today's views about money and banking. To this end, Professor White has chosen to examine the British theoretical debates and the Scottish free banking history before 1845. Going beyond the controversy of the Currency School versus the Banking School, Professor White focuses on the previously overlooked Free Banking School, which questioned the basic premises of the other two. In so doing, it addressed a more basic issue: under which condition—competition or regulation—is a banking system more efficient? It concluded in favor of competition. The Free Banking School identified the root cause of recurring economic disturbances in the legal monopoly of the Bank of England over bank note issue. Consequently, it favored subjecting the Bank of England to competition in bank note issue as the best means of checking credit fluctuations. White's exposition of this controversy provides a most valuable refutation of interventionist reasoning.

Furthermore, the book challenges the validity of the classic argument against Free Banking, which cites the American experience before the Civil War. The term “free banking,” as used in this instance, is misleading, given the close regulation of banks by the state legislatures. Thus, one cannot fault “free banking” for the failure of systems that were not, in fact, free (except for competitive and stable New England, one might add). In contrast, White presents the truly free banking system of Scotland before 1845 as a paradigm, showing that this competitive system generated no erratic fluctuations. Scotland’s system was prosperous and depression-proof, while the regulated English banks suffered severe monetary disturbances.

The reader should note White’s use of a simplified bank balance sheet model showing, with twelve equations, the self-regulating nature of a free banking system. That is, the system spontaneously adjusts the supply to the demand for currency. White points out that under free market conditions the bank reserve ratio may be well below 100 per cent. “Fractional reserves” exist naturally and may fall to surprisingly low ratios. After citing a Scottish bank in the 1830′s that “held specie reserves averaging only 0.5 per cent of total demand liabilities,” White accurately concludes that “a bank note-issuing firm is presumably competent to choose a level of reserves prudent enough for its own private purposes.”

So convincing are the conclusions of Professor White’s research that even before the publication of his book and while travelling in Scotland, England and Continental Europe, he had already influenced academic thinkers significantly. Combined with a growing interest in the monetary contributions ofLudwig von Mises and F. A. Hayek, Professor White’s theoretical and historical work will undoubtedly foster a better understanding of free competitive processes in money and banking.

Book Review: Pieces of Eight: the Monetary Powers and Disabilities of the United States Constitution by Edwin Vieira, Jr.

OCTOBER 01, 1984 by Brian Summers

(Devin-Adair, 143 Sound Beach Avenue, Box A, Old Greenwich, CT 06870), 1984 391 pages • $19.95 paperback This is a scholarly, thoroughly documented analysis of the monetary powers of the United States Constitution, and how these powers have been disabled by Congress, the Courts, and Presidential edicts. The arguments are cogent, with numerous references to Acts of Congress and Supreme Court rulings. In short, this is a challenging book.

But the challenge is well worth meeting, especially for those who are serious students of money, banking, and Constitutional law. In particular, Professor Vieira makes a compelling case that Congress exceeded its Constitutional authority in creating the Federal Reserve. Our fractional reserve, fiat money system is not only an economic house of cards, it also, in the final analysis, is unconstitutional.

How to rectify the situation? Professor Vieira counsels bold Presidential action. But unless the President is backed by an enlightened electorate, radical moves would only lead to impeachment and disgrace. Education is probably still the only answer, and this book can play a valuable role in that process.

Book Review: Overdrive by William F Buckley, Jr.

OCTOBER 01, 1984 by Joseph S. Fulda

(Doubleday and Company, Garden City, New York) 1983 • 262 pages • $16.95 cloth

William F. Buckley, Jr. is a man of many talents and interests and *Overdrive,* a factual accounting of eight days of Mr. Buckley's life, makes a weekend's fascinating reading. The form Mr. Buckley has chosen is especially welcome, since it reduces self-evaluation to a bare minimum—we see Mr. Buckley "as is." Probably the leading conservative thinker in America, Buckley is a busy man—shuttling and flying from state to state for speaking engagements, dinners, editing *National Review,* and hosting his public television series, *Firing Line.*

Overdrive gives us insight into what Buckley considers important: among other things—careful attention to his correspondence, to which he is always ready with a witty reply, a full social life, a concern for his friends (he has a great many of these), sailing, and of course, his work. With all these endeavors, one might wonder how he finds time to write a column three times a week or devote so much interest to music. Buckley's secret is to waste no time. Much of his work—columns, correspondence, editorial decisions, and telephone calls—is done in transit in the back seat of his refitted car. By the time the reader finishes *Overdrive,* he begins to wonder at the pace of it all, yet it comes through often and clearly that Mr. Buckley is a happy and fulfilled man.

About J. Ollie Edmunds

About Jeff Van Drunen

About Dean Russell

About Hans Sennholz

About John K. Williams

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