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Myth and Reality in Economic Systems

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Myth and Reality in Economic Systems

Arthur Shenfield

Arthur Shenfield is a British economist and lawyer who has taught economics and law as a Visiting Professor at various American Universities (Chicago, California at Davis, Temple, Dallas, San Diego). During the spring 1981 semester he is the John M. Olin Distinguished Professor of Economics at the Colorado School of Mines. He is a past President of the Mont Pelerin Society. In Britain among other notable appointments he has held those of Economic Director of the Confederation of British Industry and Director of the Industrial Policy Group.

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THE ROOTS OF ANTI-CAPITALISM

ARTHUR SHENFIELD

Suppose that a man informed us that the earth was flat, and that the sun went round the earth. No doubt we should smile at his errors and dismiss him as an eccentric or worse. But let us not forget that his appeal would be to the apparently obvious. For after all, he could maintain, anyone with a pair of eyes can see that the earth is flat, and that each day the sun rises in the east and moves across the sky to the west. We would know that he was wrong, but only because we have knowledge which controverts the apparent evidence of our eyes. In practice the great majority of people could not have acquired this knowledge themselves but have merely been taught that once these erroneous beliefs were almost universally held but were discovered to be contrary to the truth for reasons that required some thought beyond the apparent evidence of our eyes.

Now suppose that we had entirely forgotten that once men believed that the earth was flat or that the sun went round the earth. Suppose that a man declared that our current beliefs about the earth and the sun were outdated because he had discovered entirely new truths, namely the flatness of the earth and the geocentric character of the solar system; that these new truths were a great revelation; that they represented the wave of the future; and that only intellectual stick-in-the-muds would continue to adhere to the belief in the roundness of the earth and the heliocentric character of the solar system. It is by no means unlikely that many people would flock to his banner, for the appeal of the fresh and new, the wave of the future, the unexpected revelation, has a natural strength. Certainly this would happen if the new "truths" could be linked with dissatisfaction with the state of society, with enmity against the "establishment," and with general feelings of discontent.

All socialist or anti-capitalist ideologies, with one partial exception, are comparable to the belief in the flatness of the earth and the geocentric solar system in that they are a rivival of old, long-exploded errors, which are presented to us as a revelation of fresh truth. And the freshness which is claimed for them, though false as false could be, is a most potent factor in their popular appeal. In socialist propaganda not much is more prominent than the assertion that a belief in capitalism, or free enterprise, or the free market economy shows that its holder is marooned in the nineteenth century, while the socialist himself is a man of the twentieth century. It is amusing to note that his ideas turn out to be those that were in the ascendant during various centuries before the nineteenth, which were thoroughly confuted by the liberal philosophers and economists of the seventeenth and eighteenth centuries, but which unfortunately never died out among the ignorant and uninstructed.

The one partial exception is Marxism. There are leading elements in Marxist theory that are original to Marx, or are rooted in Hegel or Ricardo. This does not invest them with any truth; on the contrary they are among the most perverse and long-confuted errors of Marxism. However, it does mean that they cannot be called pre-capitalist. Nevertheless, they are only a partial exception to the general rule that socialist ideologies are old, atavistic errors polished up for our generation's consumption. First, because behind Marx's theoretical constructions there lay in his mind animosities and prejudices which were rooted not merely in his hateful personal character[1] but also in some of these atavistic ideas which we shall describe below. Second, and more important, the popular appeal of Marxism has almost nothing to do with the essentials of Marxist theory. It is a fair guess that hardly one Marxist in a hundred has read, marked, learned and inwardly digested the Marxist scriptures. Among Marxist politicians the number must be close to zero. The stock-in-trade of Marxist politicians consists of slogans, not theory. Marxist theory is useless to Mr. Brezhnev, whether as a guide to action or as means to the persuasion of the masses. But slogans are of great value to him; and the power of these slogans arises from feelings which were exorcised, and from ideas which were superseded, among men of intelligence and understanding in the processes which gave birth to capitalism. The same applies to M. Marchais, Signor Berlinguer, or any other

1. For example, his odious anti-semitism was not simply a pathological reaction to his own Jewish birth. It reflected his acceptance of the centuries-old calumnies against the Jewish people which were deeply rooted in pre-capitalist Christendom, and which colored his views on capitalism notwithstanding his praise for the technical achievements of industrial capitalism. His irascibility, his callous treatment of his family, and his sponging, without trace of gratitude, on his loyal friend Engels, are important counts in the indictment of his character, but it would not be fair to use them as a base for the arraignment of his theories.

Marxist politician in western countries.

Of the pre-capitalist ideas which are the warp and woof of modern socialism the following are the most prominent.

The Just Price and Wage

A system in which prices and wages are determined by the operation of supply and demand or by the so-called impersonal forces of the market is alleged to be unjust. A just system must determine prices and wages on a just principle, which the principle of the market, it is said, is not. The majority of socialists do not bother to spell out what would be a just principle with any precision. Indeed the very vagueness of their concept of justice is in large measure the source of its persuasive power. But the concept of a just system of wages and prices finds a place in the thoughts, or more accurately the feelings, of all types of socialists.

In the Middle Ages theologians wrestled for centuries with the concept of the just price and the just wage. However, it is clear that it was of the same quality of perception as the belief in the flat earth. The just price and the just wage were in essence merely the customary price and the customary wage. In the static medieval economy, this had a natural acceptability, though its application could not survive great disturbances such as the Black Death.

Among men of understanding, this simple concept did not survive the intellectual force of the Enlightenment of the eighteenth century, but in fact it had already been exploded by the Catholic theologians of the School of Salamanca in Spain in the sixteenth century. Long before the economists of the Enlightenment these Catholic theologians perceived the truth that a price or a wage is just if it is the result of a voluntary bargain, free from force and fraud. This is precisely the nature of prices and wages determined by supply and demand in a free market. What socialists of all kinds believe or feel to be just harks back to the exploded and simplistic notion of the Middle Ages. It is rooted in pre-capitalistic thought.

Critics of the modern economy often deny the justice of its prices and wages on the ground that markets are governed, in varying degrees, by monopoly or oligopoly; and monopoly and oligopoly they regard as a species of force, if not fraud. This view is false on at least two counts.

First, where monopoly or oligopoly in no way rests upon governmental aid, license, privilege, immunity, favor, or other support, it has no affinity with force. What the critics have in mind is inequality of bargaining power. In fact, equality of bargaining power does not and cannot exist in any transaction in any human situation, and is in no way a condition of the peaceful determination of prices or wages.

Second, where monopoly or oligopoly truly rests upon force it is always by way of some form of favorable governmental action (or inaction when the government fails to prevent the private use of force, as for example in the case of trade unions). But such governmental action is what is advocated in one form or another by socialists themselves. It is they who advocate monopoly *ad infinitum,* on the belief or pretense that in state hands, monopoly must be beneficent. In fact, state monopoly is the embodiment not merely of force, but also of private force. For it always represents the interests of some individuals or groups within society. In Russia, Poland, Czechoslovakia, *et al.,* it is obvious that, contrary to the slogans of the governments, the whole of society, its power and its property, is run as the fief of the ruling class or elite; and the disposition of the fruits of their fiefdom reflects the relative power of rival sub-groups within that group. In the semi-liberal countries of the West, nationalized industries are par excellence examples of the seizure by private groups of the benefits of so-called public property. Thus, for example, in Britain the nationalized coal and railway industries are run principally for the benefit of the miners and railwaymen. Since all governmental activity calls a bureaucracy into action, whole-hogging state monopoly inevitably produces a gargantuan bureaucracy, which then itself becomes a powerful private force with a voracious appetite for the fruits of power. Partial nationalization or partial socialism is a common feature of the stratagem of the assault on the free market, which is to distort it by governmental intervention and then to complain that it is not the system of freedom which it claims to be.

The Animus Against Traders and Speculators

Just as any man with eyes can see that the earth is flat, so any such man can see that a farmer, a craftsman, or an industrial worker produces wealth while a mere trader, still more a speculator, does not. However, what his eyes see needs correction. If the producer of tangible goods incurs greater cost than the value of his output, he does not produce wealth. On the contrary he wastes it. But more importantly, the production of wealth is a complex process involving long chains of activity by persons who do not physically handle the goods as well as by those who do. Though for centuries it was thought that the trader or middleman added nothing to the production of wealth, even most socialists now understand that what he does is part of the service to the consumer, though they usually think that the state can do it better, and that he is overpaid despite the fact that in a free market his remuneration is voluntarily decided by the consumer. The speculator, however, is still almost universally regarded by socialists as a parasite or worse; and no character operating in the free market arouses greater ire among them. When Harold Wilson, then British Prime Minister, was unsuccessfully trying to keep a failing pound at £2.80, he blamed the "gnomes of Zurich," that is, currency speculators, for his failure, not the errors of his own policies. When the price of wheat, or coffee, or tin, or rubber, or any other widely traded commodity rises or falls to the discomfort of consumers or producers, denunciations of speculators leap to a thousand mouths, and there are few who rise to defend them.

This is one of the most lamentable expressions of the economic illiteracy of our times. In these reactions those who understand the nature neither of speculation nor of market processes in general reflect almost precisely the primitive feelings of our ancient and medieval ancestors. In their times speculators were punished with heavy, often savage and barbarous, penalties. So, too, are those who are now caught speculating in the Soviet Union, although what they do has the beneficent effect of mitigating the inefficiencies and inequities of the Soviet planned economy. The truth is that successful speculators, especially but not only in the commodity markets, produce immense benefits for the many millions of producers and consumers whose activities they affect. Unsuccessful speculators do not produce such benefits, except to the extent that they help to make a market for the successful ones, but unsuccessful speculators do not last. Successful speculators smooth market fluctuations and indicate where resources should and should not go. Thus, for example, a speculator who buys and sells wheat in the futures market takes a view of what the spot price will be, say three months ahead. If he is right, or even if he is only right in the upward or downward direction of his speculation, he leads buyers and sellers smoothly to the position which in three months will result from the actual supply and demand of that time. Without his speculation they would be awakened suddenly to the true situation; but a market which proceeds from jerk to jerk is not one in which farmers, millers, bakers, fertilizer and tractor manufacturers, seed merchants and others can plan their own investment or production successfully. A speculator who directs his funds into the widget industry and away from the gadget industry takes a view on their relative future as it will be determined in due course by the true facts of their progress or lack of it. If he is right he leads capital into the channels where it will produce the optimum results for the people. There are not many services in the processes of the production of wealth greater than these. Indeed since all economic processes are concerned with a future that cannot be known but can only be estimated, the development of skill in speculation is vitally important for all economic progress.

The Poor versus the Rich

During the millennia of human existence before the rise of capitalism, one man's wealth commonly meant another man's poverty. To seize other men's bodies, or the land which they cultivated or over which they hunted, was the commonest way to acquire wealth. Slavery, serfdom, peonage, or some other form of subordination was the lot of the greater part of mankind. Even where, as in the early transition to the feudal system, men accepted serfdom as the price of their overlord's protection against marauders or other would-be overlords, in which case it may be conceded that the lord's peace made a contribution to the serf's output, the division of the product between lord and serf was determined by the lord's law and power, not by free bargaining. As long as the social product was static, more for the rich inevitably meant less for the poor. Hence when slave uprisings or peasants' revolts took place, the spur was the desire to reverse the true and age-old domination of the many by the few.

Capitalism was the first system in human history in which it became possible to become rich by uplifting the poor. With the enormous expansion of wealth which it brought about, even a larger absolute slice of the cake for the rich could mean, indeed did mean, a smaller proportionate slice. Thus was provided a larger slice, both absolute and proportionate, for the poor. The largest fortunes were made no longer from fine silks but from cheap woolens and cottons; no longer from rare perfumes but from soap and detergents; no longer from rare spices but from the tea, coffee, sugar, margarine, and ever-widening range of other foods for the masses. Henry Ford became a multi-millionaire by putting the masses on wheels, but Sir Henry Royce, who built the Rolls Royce and was a far finer engineer than Ford, never made one million pounds, or even dollars, for himself. One man's wealth arose not from the seizure of another man's person or property, but from the enhancement of another man's consumption or welfare.

Naturally, those who had inherited wealth from the depredations of pre-capitalist times were also in a position to benefit from the expansion of wealth brought about by capitalism, but unless their wealth entered into the beneficent processes of capitalist investment and was maintained by attention to capitalist principles, it was soon dissipated. In any case, such inherited wealth was vastly exceeded by wealth which originated in the processes which produced the uplifting of the masses.

Socialists of all kinds hark back to the pre-capitalist relations of wealth and poverty. Indeed this is the source of their most powerful appeal. "You are poor," they say to the "poor" (who may in fact be notably affluent by historical standards), "because the rich are rich. They get rich because they rob you. Give us the power and we will tear them down." The Marxist theory of surplus value was the product of Marx's own thought as he interpreted Ricardo, but, as we have noted above, its popular appeal arises not from the theoretical foundations of which few Marxists have any real knowledge but from the age-old cry "The rich (that is, the capitalists) live by robbing the poor (that is, workers)." This is the appeal to blind envy, the most corrosive and destructive of all human emotions. Of course, when the socialist does achieve power, he may tear down those already rich (some, not all, because there are usually men among the rich who know how to curry favor with him), but he himself becomes rich and the poor descend to new levels of poverty.

To give his old, atavistic appeal some plausibility the socialist must argue that early capitalism depressed the worker's standard of living, and that modern capitalism is what he calls "monopoly capitalism." As to history, there are few examples of historiography more contemptible than the dark pictures of early capitalism painted with a very selective brush by those who were determined to prove that it was the workers' oppressor. In the first place the great majority of the workers owed their very lives to capitalism. Between 1750 and 1850 the population of Great Britain was trebled, and the sole cause of this unprecedented phenomenon was the Industrial Revolution. In the second place, the evidence, when fairly examined, shows that industrialization, both early and late, was always an uplifting force for the workers' standard of living. This became so obvious by the end of the nineteenth century that a considerable number of Marxists, the group of Revisionists, felt bound to recognize that the Marxist doctrine of "immiseration" of the workers under capitalism was false.

As to "monopoly capitalism," this concept rests on a tissue of misunderstandings. The most naive but widespread of these misunderstandings ascribes monopoly to the firms simply because they are large, or because there is a high degree of concentration in the industries concerned (in other words, a high proportion of the output or investment in those industries is attributable to a small number of firms). As a result companies which live in a whirlwind of competition, such as automobile manufacturers or detergent producers, are said to possess monopolistic or quasi-monopolistic power. As noted above, monopoly becomes a problem only where it is produced or bolstered by governmental action, of which socialists of all stripes are usually the most ardent advocates.

The Allure of Economic Planning

More typical of the modern socialist than almost anything else is his belief that the free economy is a system of chaos. Hence his attachment to economic planning in one form or another. Also more than almost anything else his belief in the virtue of economic planning convinces the socialist that he is a man of the twentieth century. This above all he imagines is the wave of the future.

The idea that economic planning is fresh and new, a great discovery of our times, is not merely false. It is ludicrously false. In the first place economic planning has a history of centuries, indeed millennia. But if we ignore the planning of emperors, kings, and other rulers in primitive or simple economies, we must note that the outstanding economic planner of recent centuries was Jean-Baptiste Colbert, Louis XIV's gifted Minister. As planners go, it is most unlikely that he has his equal in modern times. It is amusing to note that modern proponents of economic planning are oblivious not only of Colbert's achievement as a planner but also of the fact that in the end the French economy was stifled by it, while the less-planned British economy was able to forge ahead and lead the world to the Industrial Revolution.

In the second place modern economic planning outside the citadels of full communism turns out to be largely a reversion to principles and practices of mercantilism in modern disguise. Of course, Colbert's planning, though going further and deeper than simple mercantilism, was itself rooted in mercantilist attitudes. Thus so far from being the wave of the future, economic planning is on all counts a reversion to old exploded errors and confusions.

The Coalescence of State and Society

In medieval Europe the state and society were understood to be separate entities. Rulers had large powers, but their states were embedded in Christendom, and Christendom was the society of Europe. Hence, the rulers were subject to the overriding precepts of the Church. The submission of the Emperor to the Pope at Canossa was the high water mark of the authority of the Church, which in most times and places was less dominant. Nevertheless, it was understood by all that the power of secular rulers was limited. Indeed the limits to their power were set not only by the precepts of the Church but also by the customs of their peoples which often went back to pre-Christian times.

In the post-medieval but pre-capitalist period there arose the doctrine of the divine right of kings. Thereby secular rulers asserted an unlimited supremacy, which in effect meant that state and society were one. In practice the doctrine did not always prove to be fully totalitarian because most rulers found it to be convenient to allow a role to custom and some customary centers of secular authority. Nevertheless the divine right of kings was in essence a totalitarian doctrine. This was made clear after the end of the European religious wars by the acceptance of the principle "cuius regio eius religio" (that is, whatever religion the ruler adopted his subjects also had to adopt). A century earlier this totalitarian doctrine was implicit in the decision of Henry VIII to make himself the head of the Church of England.

With the rise of the philosophers of liberalism, state and society were separated once again, most effectively but not solely in the English-speaking world. Inevitably this meant the establishment of the principle of the limited state. It was evidenced most clearly of all in the American Constitution, but it was implicit in all constitutions, for there was no purpose in a constitution except to limit the power of the ruler. In its best expression it meant submission to the Rule of Law, and the Rule of Law is the quintessential denial of the principles of any form of totalitarianism. Without the limited state and the Rule of Law, modern capitalism could not have developed.

All socialism is a reversion to the coalescence of state and society. This is obvious in the case of the openly totalitarian countries behind the Iron Curtain, but it is also true, though not so obviously, of the socialists or social democrats of the West. Social democrats do not think so, nor do they understand that it is so. That is due to the fact that they cannot see the fundamental contradiction of their position. Their socialism propels them into the aggrandizement of the state at every move, but this puts a strain upon their adherence to constitutional limits upon its power. In the final analysis, the limits must give way to the pressure of their socialism, even if gradually, for otherwise they have to face the unwelcome criticism that they are not true socialists at all. This is why in practice social democracy tends to move only one way. It is also why in a political crisis the social democrats tend to succumb to the powerful cry "pas d'ennemi à gauche."

The truth of the matter is that the modern socialist reverts to the divine right of kings in the form of the divine right of democratic majorities. In the case of communists and many socialists, this is no more than a convenient pretense. Once in power they claim a divine right to rule the majority without consultation and without elections (except fraudulent ones). However, social democrats believe without pretense in the divine right of democratic majorities and would not wish to rule without their assent. This is what propels them down the totalitarian road, for deep down they find it hard to restrain the feeling that democratic majorities are in principle entitled to do anything they please. In a crisis this feeling becomes overpowering. As the socialists' own policies inevitably produce crises, their slide to totalitarianism is not surprising. Of course, the free society cannot tolerate any kind of divine right. Even a 99-percent majority has no right to deprive one percent of the people of their individual rights.

Here we see the worst of all the pre-capitalist roots of anti-capitalism. In the end this is what all anti-capitalist movements produce, a reversion to an odious principle from which the civilized world was liberated by the most enlightened of our forefathers. In fact the reversion produces something worse than the original. For despotic kings and emperors were sometimes benevolent. Those who claim to speak for democratic majorities with unrestrained powers cannot afford to be benevolent.

SOCIALISM AND EFFICIENCY

All success in economic activity depends upon assessments of the future. Such assessments may sometimes flow from mere luck, like the fortunate throw of a coin. But as success and failure have a more or less equal chance in the lottery of luck, any preponderance of success over failure will result from assessments of the future which are based upon a perception of information with a likelihood of reliability, and on skill, or experience, or intuition, in interpreting it. For time is of the essence of almost all economic activity.

A farmer needs success not only in reading the messages of soil, sun, and skies, but also in sifting information about crop volumes and prices, and production costs of various kinds. A shoe manufacturer needs success not only in reading the signs of fashion, but also in interpreting information on supplies of leather and other materials, of labor and other production components, and on consumer incomes and their possible avenues of disposal.

Precise information can, in principle, relate only to the past or present, though in practice even purported facts about the past or present must always embody some element, large or small, of estimation. Even last year's crop of wheat or sales volume of shoes can never be known with absolute precision. Nevertheless, most economic information about the past, though not the present, can be sufficiently reliable to offer a basis for informed estimation of the future, especially where the collection of data about the past is itself a skilled, professional, organized, and rewarding activity. Precise information on the future is, of course, beyond the power of man, but without some way of making an approach to a fair degree of accuracy in forecasting the future, and without a widespread skill in such forecasting among those who make production decisions, an economy is unlikely to display progress, expansion, or development.

In any complex economy the amount, variety, intricacy, and mutability of information relevant to economic success are so enormous as to be beyond measure. The proverbial grains of sand on the shore or the stars in the sky are not more numerous than the items of information which can conceivably have some bearing upon economic activity. But unlike the sand and the sky, these items are in process of change every moment of the day. Of course, the assembly of all conceivably relevant information is impossible. Nevertheless, in any modern economy the flow of information coming every day before producers all taken together is so tremendous as to be beyond grasp or comprehension by any single person or organized group of persons, however large or skilled.

The free market is a device for solving the problem of information. No single person or group of persons (for example, a company) has to deal with more than a tiny proportion of all the information which constantly flows in upon producers and consumers. Though a very large company, such as General Motors, whose output is great and whose investment time scale is lengthy, has to handle a prodigious amount of information, it still encompasses only a minute proportion of all the economic information available. Thus the task of handling information is manageable. Indeed if an economic unit has to handle more than is manageable, it is on the way to break-up or extinction.

While the free market enables each unit to deal with a manageable flow of information, it also acts as coordinator of the various units' decisions. At each moment the interplay of those decisions produces a determinate result which gives each decision its due weight in the outcome. This does not mean that every decision has to be well founded. On the contrary it is conceivable, though extremely unlikely, that every decision is misconceived. Right or wrong, well or ill founded, each decision will play its part in the interplay which produces the outcome. If the outcome disappoints any expectations, even the expectations of all concerned, that is itself a piece of information which indicates to producers and consumers that their decisions must henceforth be fashioned differently.

The flow of information in a free market embodies itself in the price system. Every item of information, say on past, present, or prospective supply or demand, translates itself, or needs to be translated, into some price or prices. Thus the price system is an enormous signalling system. Those succeed who read the signals well. Those fail who read them ill. But since those who fail tend to leave the scene, while those who succeed survive, the price signalling system enables an economy as a whole to make progress, even though there may be a never-ending supply of those who fail.

The problem of information has an intimate bearing upon the tasks of economic planning and governmental intervention. Any judgment upon the performance of planners and intervenors must take a view on the nature of whatever signalling system is available to them, and on the likelihood of success in the use of it.

We shall be concerned here with governmental economic action ranging from attempts at complete central planning to various kinds of partial or *ad hoc* interference with the operations of the market.

Central Economic Planning

Picture the position of a complete central economic planner. Suppose that the multitude of producers and consumers were free to send their signals to represent their independent desires, changing them at will, as they might in a free market. Then the myriad of signals reaching the planner would be infinitely beyond his capacity to comprehend or use. The result would be chaos. But, if the planner wished to produce any kind of rational result, his position would be worse than this. For, by definition, he would be in complete control of all factors of production and all units of consumption. Hence the planner would himself be the originator of the signals flowing to him. In brief he would be like a man who needed light to reach him through windows but was surrounded by mirrors. The images which came to him would be his own reflections. His signals would be mere echoes of his own decisions.

It follows that rational central economic planning is impossible. Of course, it is possible for the planner to issue orders which all are required to obey. However, if the purpose of rational economic activity is to satisfy the wants of the people, central economic planning clearly cannot fulfill it. Even if its purpose is simply to fulfill the arbitrary commands of the planner, the task of duly coordinating the myriad actions required to give effect to his commands is beyond human capacity. A rough appearance of coordination may be achieved, but behind or beneath the appearance there will be countless cases of actions which glance away from or run counter to the needs of coordination.

It is for these reasons that the economy of the Soviet Union is so patently inefficient in comparison with all market economies, even if the latter are hobbled or distorted by ill-considered governmental intervention. Of course, the inefficiency is compatible with technological success in particular sectors, for example, in armaments or the assembly of military forces. For there the tasks of coordination are narrowed down to manageable proportions, at the cost of disregard for success in the main sectors of the economy. Success in some sectors may also be achieved by importing technology from the market economies, and by making use of their signalling systems. As far as the mitigation of economic inefficiency is concerned, it has been fortunate for the Soviet Union that it has not achieved its aim of conquering the free world, for it has been able to use the price signalling system of the free world to indicate the relative values of those of its products which enter or might enter, into international trade. To the Soviet rulers, the fruits of political power are much more important than economic efficiency. Hence world conquest remains their aim.

Probably the most striking example of the inefficiency of the centrally planned economy is shown by Soviet agriculture. The Ukraine once served as the granary of much of western Europe, but, as someone has observed, it appears to have suffered from sixty-three years of bad weather. The collectivized sector of agriculture accounts for well above 90 percent of tillable land, and an even higher percentage of agricultural capital investment. However, the collectivized peasants are allowed to cultivate small private plots of their own for private use and sale. Estimates of the produce of this small private sector range from 25-35 percent of the whole value of Soviet farm output, thus illustrating the enormous boost to efficiency of the power of private initiative and enterprise. An equally striking difference is displayed between Soviet and Polish agriculture. The Polish communists have had the intelligence not to collectivize their agriculture. Thus Polish agriculture, though conspicuously less productive than that of western Europe and North America, is conspicuously more productive than that of the Soviet Union.

The confusion caused in the Soviet economy by the absence of an effective signalling system is illustrated by the toleration of corrective action which is illegal, indeed criminal, and officially the subject of vigorous denunciation. To take the simplest case, the manager of Factory A receives too much of raw material X and too little of raw material Y. The manager of Factory B suffers from the reverse imbalance. An alert entrepreneur noses out this situation and helps the two managers to correct the imbalances by way of exchange, with a profit for himself. Where there are a great variety of materials and a wide range of intermediate goods, the incidence of such planning mishaps is very high and the opportunities for entrepreneurial correction are legion. The planners are well aware of this activity and are content to allow it to proceed, except that in order to show that, efficient or not, they have the whip hand, they from time to time select an unfortunate enterpreneur or manager for condign punishment. It is a case of a delicate balance between the acceptance of free enterprise correction of planning error and the political necessity to exert the authority of centralized power.

An important feature of the illogic of attempts at central economic planning is to be seen in the frequent claims of Soviet and other planners that the targets of their plans had been exceeded. Of course, these claims may often have had no more substance than the similar claims of the Ministry of Truth in Orwell's *1984.* But the claims themselves expose the failure of planning, if planning there truly is. For a true economic plan, in which the allocation of resources is properly coordinated, can no more tolerate overproduction in any sector than it can tolerate underproduction. Not even overproduction in *all* sectors is tolerable, for since some products are substitutes for others, increased output of some can only arise from decreased output of others.

The fundamental contradictions of the attempt at central economic planning were exposed nearly sixty years ago by the late Ludwig von Mises. As he described the working of a signalling system, it was the problem of calculation implicit in the allocation and coordination of resources which a market system could solve and a central plan could not; and without a solution to the problem of calculation, rational economic planning is impossible. This was why he declared that socialism was impossible. To startled observers of the fact that something called socialism existed in the Soviet Union, this seemed to be an utterly fanciful assertion. But what Mises meant was that the achievement not merely of rational economic planning but also of the proclaimed aims of the theoreticians of socialism was impossible; and this the history both of the Soviet Union and of the more recently established socialist or communist states fully bears out.

Most socialists paid little heed to Mises' analysis. However, there were some who did, and among them were economists of undoubted professional distinction, notably Oskar Lange, A.P. Lerner, and H.D. Dickinson. Lange went so far as to declare, perhaps with his tongue in his cheek, that a statue of Mises ought to be erected in some socialist capital, for he had demonstrated to socialist planners what the nature of their problem was. These economists conceded that the signalling system of the free market and its system of coordination provided the correct model for socialist planning. Hence they proposed the artificial simulation of the free market pricing system, so that, capped with centralized social control, it would display the merits without the demerits of the free market of capitalism.

The arguments of these proponents of simulated market pricing have turned out to be a mere footnote in the history of economic analysis and disputation. Quite apart from the practical and technical difficulties of simulating free markets in goods and services, the details of which need not detain us here, the plan faced the fundamental problem of the social ownership of capital. Without this there could be no point in transforming capitalism into socialism. But without a free market in capital there could be no genuine free markets in anything else. Furthermore, if market pricing were truly followed, incomes would be determined by market supply and demand. But it is this which socialists object to almost as much as they object to the enjoyment of incomes as the fruit of the private ownership of capital. Hence market socialism could never become more than the daydream of theorizers. Real-life socialists would find it abhorrent.

An interesting and perhaps amusing sidelight on this episode in socialist theorizing is displayed by the career of its most distinguished exponent, Oskar Lange. After the Second World War, he returned from the United States to his native Poland, where he became the chief economic planner. Thus he had a unique opportunity to put his theorizing into practice. However, once in power he appears to have forgotten it, for nothing further was heard from him about it; and the Polish economy was planned by the fist, not by the simulated market. Alternatively if the rejection of the market was the decision of Lange's political masters, this would confirm that the true purpose of central economic planning is to serve political power, not economic efficiency or the interests of the people.

This latter truth is exemplified by another footnote in the history of socialist economic planning. In the early 1960s the obvious inefficiency of the Soviet economy prompted Professor E.G. Liberman of Kharkov to advocate that it should be guided by profit, perhaps the most unholy figure in the Soviet demonology. Professor Liberman did not mean capitalist profit, but simply some guide to industry to enable it to distinguish between fruitful and unfruitful economic activities. Without some such guide, he correctly observed, the economy was rudderless on uncharted seas. In effect, Professor Liberman was looking for a signalling system for producers, which was in fact a tentative groping toward something like the simulation of the market propounded by Lange *et al.* The stir which Professor Liberman caused was considerable, and for a time he appears to have been taken seriously by the Soviet planners. However, in due course, the threat of his ideas to the planners' political power was perceived, and after a few years no more was heard of Libermanism. Like the Polish economy, the Soviet economy continued to be ruled by the fist, but a much more massive one.

Our observations on the signalling system which every successful economy needs, bring into relief the extraordinary perversity of one of the commonest charges levelled against the free economy by socialists of all kinds. They dilate upon the "blind forces of the market," and offer central planning precisely for the purpose of replacing these allegedly blind forces by the sighted and inspired direction and control of the dedicated representatives and appointees of the people. It is a persuasive line of propaganda. Ought we not to strive to be the captains of our fate, the masters of our souls? How can a mature society allow itself to be blown hither and thither by the apparently unguided and uncontrolled winds of the market? What is the purpose of a state if not to take a grip on the forces determining our fate, subjecting them to conscious control in the interest of the whole society? The truth is that it is the forces of economic planning which are blind, whereas the market has true direction and purpose precisely because its centers of decision-making are dispersed and are guided by a workable signalling system. Unlike the planner, the free market decision-maker does not need more knowledge or information than is humanly attainable and manageable.

Indicative Planning

Among the adherents of economic planning, the word "plan" can mean almost anything ordered by government. If its emptiness is exposed in one sense, it slides easily to some other sense. However, there is one example of an effort to apply it in its only logical sense of a central coordination of economic activity which merits our attention. This is, or was, the French system of indicative or voluntary planning.

During the Second World War the French economy was largely shattered. After the war, and spurred by the opportunity presented by munificent Marshall Aid from the United States, the late Jean Monnet, an engineer of great talent, proposed the rehabilitation of the infrastructure of the French economy by governmental investment and direction. Thus was conceived the First Plan, which ran from 1947 to 1953. It did indeed set the infrastructure on the road to rehabilitation, but this has to be described as planning only in a Pickwickian sense. For the massive investment of funds from any source, public or private, would have repaired and renewed the roads and railways, the power-houses, the gas installations and the like. However, the results were sufficiently impressive to induce French governments to continue the process in one form or another, and 1980 was the last year of the Seventh Plan (1977-80), and the Eighth Plan (1981-84) is now in preparation.

The Second and Third Plans (1954-57 and 1958-61) received little notice outside France, and not a great deal even within France. Indeed the Third Plan was temporarily suspended while the government grappled with a rapidly deteriorating economic situation. But the Fourth Plan (1962-65) suddenly leapt into international prominence.

By this time the head of the planning organization, the Commissariat au Plan, was a M. Pierre Massé. M. Massé may or may not have been a good planner, but he was certainly an excellent propagandist. It was with him that the concept of indicative planning came to the fore. No longer was the Plan to be a mere instrument of investment in the infrastructure of basic industries. It was to be a true system of economic coordination. Yet it was to be without compulsion. It was to improve upon the coordination of the free market by indicating to industry how it could raise its performance within the framework of the market. Hence indicative planning.

How could this improvement be effected? Consider the market's signalling system. Each producer has to estimate the future behavior of his suppliers and customers. The signals give information on the past or present. The future is always doubtful. Hence caution is in order. But suppose that each producer could give a firm assurance of his future decisions to the other producers with whom he is linked, and likewise receive from them similar assurances of their decisions. Then all could be less constrained by caution, all could raise their sights, and all could improve their performance. Thus the whole economy could be planned into higher growth. Or so it was asserted.

Unfortunately the facts belied this scenario. Who would arrange the raising of each industry's sights? M. Massé and his planners in the Commissariat au Plan. They, in consultation with the representatives of industry in various regional and sectoral committees, would build up a coordinated pattern of statistics from which the economy's growth would rise. But where would the statistics originate? From industry itself, but modified by the superior vision of the central planners.

Now, in the first place the system was not truly voluntary. Any firm which complied with it was offered tax concessions and capital at favorable rates. Hence the determinant was the need to supply favorable statistics, though the true view and intention of the firm concerned might be different. There could always be many reasons to explain away any difference between the statistics and subsequent performance which could not be impugned by the central planners. At any given time, there are firms whose output will fall, despite the general growth of the economy, but few will forecast their own decline. Hence the Commissariat's statistics were sure to be out of true for this reason alone. In the second place the French economy was not a closed one. Figures of exports, and to a large extent also of imports, would be substantially determined by external situations beyond the purview of the planners. In the third place the central planners could in the nature of things comprehend or provide only signals of the broadest character. But the essence of the free market is that it takes account of myriads of signals of the finest detail, which is precisely why it works under decentralization of initiative and decision, not centralization. The very intrusion of centralized initiative spoils the coordination.

How much the Commissariat's planning was a charade is demonstrated by the following. During the term of the Third Plan a balance of payments and inflationary crisis struck the French economy. It was dealt with resolutely by M. Antoine Pinay by the traditional and pre-planning methods of fiscal and monetary disciplines. In the term of the Fifth Plan a similar crisis struck again. Once more it was dealt with by M. Pinay and M. Jacques Rueff by the same traditional disciplines. And in the term of the Seventh Plan, the Prime Minister, M. Raymond Barre, aimed at the improvement of the economy mainly by liberating it from constraints inimical to the unplanned, not the planned, economy. The Plans go on, but anything like true central planning disappeared long ago, if it ever existed. Few outside France, and not a great many within, are now even aware of the sequence of so-called Plans, soon to reach the Eighth edition.

But the word "plan" retains its magic for many minds. Magic is indeed the correct description, for its appeal is closely akin to that of that potent deceiver of mankind. Fortunately from time to time the facts of life break through and prevent the enticement. An egregious example of the appeal of the word is shown by the British Plan of 1965. The Plan was a hastily cobbled together attempt at an embryonic version of the French Plan. But soon after it was promulgated with a fanfare of trumpets, a balance of payments crisis struck the British economy, and the Plan sank without trace.

Interventionism

Let us now move to governmental interventions falling short of comprehensive planning. They are of many types. Let us consider the following widespread examples: nationalization of basic industries, wage and price controls, the regional direction of industry, and the regulation of particular industries.

Nationalization

Nationalization is usually advocated both as more efficient than private enterprise, and as socially superior because it rests upon the high principle of social ownership and control. Opponents of nationalization have always known that the claim of efficiency is empty, without needing the proof of experience. For those who did not know it before, the experience of nationalization has proved the point up to the hilt. The normal performance of nationalized industry is patently one of ingrained waste and inefficiency. In rare cases (for example, the Swiss Railways), one may see efficiency by one definition or another, but in such cases one will find either that it is embedded in an economy of vigorous free enterprise (the Swiss case), or that it has to meet vigorous external competition (for example, in the few cases, if any, of possibly efficient nationalized airlines).

What is worse about nationalization than its prevailing inefficiency is the falsehood of its claim to be social ownership. The truth is that it is a case of private ownership in its most, perhaps only, baleful form. The citizen who in theory owns a share of a nationalized industry in reality owns nothing. He cannot sell or otherwise dispose of his share, and for various reasons there is no known case of effective control through the voting process. The true ownership is in the hands of the bureaucrats and workers in the industry, and the only effective function of the citizen "owner" is to provide the capital for the industry and to make good the deficits which are the usual financial result of the operation.

As for social control, it is doubtful whether there is a single case where this truly exists. In fact, nationalization tends to take an industry out of control. This is clearly demonstrated in the case of Britain, where great industries were nationalized in order to give control of "the commanding heights of the economy." For more than thirty years, government after government has wrestled with the problem of finding some way of controlling them. The attempts display a record of failure after failure. There is a reason for this. There is no substitute for the controls of the market.

Wage and Price Controls

Wage and price controls are applied to restrain inflation. They have a history of many centuries, going back to the earliest recorded times, at least 4000 years. There is no known case of success. Indeed there is no known case where in addition to failing to cure the malady for which they were administered, they have not either aggravated it or produced some other damaging effect.

In our own time the most conspicuous example of failure is displayed by the British record. From the Second World War until 1979, British governments, both Labor and Conservative, tried to control inflation by means of wage and price controls in all possible permutations, voluntary, compulsory, part-voluntary, and part-compulsory. Sometimes the emphasis was on prices; sometimes on wages. The result was uniformly a tale of failure. In addition the controls contributed substantially to economic debility and to social strife previously unexampled in modern British history. Indeed in the only period when the rate of inflation fell significantly, 1976-78, it was due to a return to traditional monetary discipline, forced upon a near-bankrupt British government by the International Monetary Fund in return for a massive loan. The lesson of these wasted years has perhaps at last been learned, for the current Conservative Prime Minister has repeatedly declared that wage and price controls are the one "cure" for inflation which her government will not apply.

Advocates of wage and price controls, or "incomes policies" as they are smoothly named, often claim that there has been one example of success in modern times, namely that of the Netherlands immediately after the Second World War. It is interesting that they can find only one; they are obliged to be silent about President Nixon's 1971 controls, which obviously raised, not depressed, the rate of inflation in the United States, about President Ford's fatuous "Whip Inflation Now" campaign, and about the frenzied and counterproductive antics of President Carter's anti-inflation czar. However, the claim for the Netherlands is false. It is true that the Dutch did manage to sit upon wages and prices for a time (and only the special circumstances of a war-ravaged and highly patriotic nation enabled even this to be done), but in due course the result was a wage and price explosion. All they achieved was to postpone and aggravate it. It is well to note that in West Germany, with the most successful economy in Europe since 1948, all governments since then, Christian Democrat or Socialist, have consistently refused to have anything to do with so-called incomes policies.

Wage and price controls do not work because they cannot. They cannot work because they are based on a false view of the causation of inflation, namely cost-push. All cost-push explanations of inflation are essentially false. Always and everywhere inflation has been and is a monetary phenomenon. It cannot happen unless the flow of money outruns the flow of goods and services. To find the source of inflation one must look for the seat of control of the money supply, and those who demand higher wages or prices are not there. Rises in wages and prices are the result, not the cause, of inflation.

It is often said that though trade unions and business corporations have no direct power over the money supply, their demands for higher wages and prices induce the monetary authorities, or the governments standing behind them, to increase the flow of money for fear that the wage or price rises will produce unacceptable unemployment or other economic ills. Hence, it is supposed, governments could bring the flow of money under control if wage and price demands were moderated. This view is highly plausible but false. Its account of causation is back to front. Governments raise the flow of money in pursuit of social purposes which they fear to ask the people to finance by undisguised, properly legislated, taxation. Hence they resort to taxation by inflation. Insofar as the wage and price demands reflect the flow of money already created, their moderation would not reduce inflation. It would merely shift the incidence to those wages and prices which are outside official agreements and indices. Insofar as wage and price demands anticipate the future creation of money, their moderation will not persist unless the governments staunch the creation of new money above the flow of goods and services. But this is what governments who believe in the efficacy of wage and price controls do not do. They continue to create money in pursuit of their social purposes in the cosy feeling that now they can sow the wind without reaping the whirlwind. This is why wage and price controls always fail even when business and unions are at first prepared to abide by them.

Wherever inflation has been controlled, the staunching of the flow of new money has caused the moderation of wage and price demands, not vice versa.

It is usually also argued by the proponents of incomes policies that the monetary authorities do not, and even cannot, determine the quantity of money. This quantity, it is said, is simply the result of the people's need for exchange media to conduct their affairs; hence wage and price demands increase the quantity of money because they increase the people's need for media of exchange. This view is popular among those who have to find some way of denying that the monetary authorities have the power to end inflation. This is not the place for a detailed examination of this view; indeed it hardly merits it. It suffices to say that right to the end of the worst inflation of all time, that of Germany in 1922-23, this view was maintained by apologists of the German government, which thus was induced to keep on printing money helplessly until its value fell to zero. The same view has also played a part in other notorious inflations.

The distinction between voluntary and compulsory wage and price controls is both irrelevant and deceptive. It is irrelevant because if they are to work at all, voluntary and compulsory controls must work in the same way. In either case the prescription is based on the same view of causation, the same diagnosis, the same prognosis. It is deceptive because the distinction is intended to suggest that voluntary controls are a more tasty medicine than compulsory controls. They are not. In fact, so-called voluntary controls tend to have an element of compulsion, for governments have ways and means of compelling "voluntary" compliance. Thus the term "voluntary" is itself deceptive, quite apart from questions of diagnosis and prognosis.

Wage and price controls do not simply fail to cure inflation. They do positive harm. In addition to aggravating inflation, they weaken the efficiency of the economy by disrupting the signals which indicate where to invest and where not, where to attract labor and where to discourage it, where to use more resources and where to use less. There is little in economic policy which can do worse than that.

Regional Policies

The regional direction of industry displays governmental economic intervention at its most simple-minded, but not at its least harmful. It is the cause of immense waste of public and private funds. Its purpose is to redress the balance between the more and the less prosperous regions of a country, but, despite the large expenditures involved, success in the achievement of its purpose is in no case easy to discern. The proponents of this kind of governmental intervention are, therefore, obliged to argue that the regional imbalance would be worse without such a policy, which is perhaps the best illustration of its simple-minded character. If all other things remained unchanged, the forcible shunting of industry from one region to another might well lessen an imbalance. However, this ignores the reasons why the imbalance was there in the first place. To the extent that governmental intervention in, or mismanagement of, the economy is a principal cause of such imbalances, or to the extent that they are due to distortions created by governmentally tolerated trade union power, the regional direction of industry is an attempt to cure a malady without treating its cause, and to do it in an extremely expensive way to boot. Alternatively the imbalance may be rooted in deep-seated cultural differences, in which case the regional direction of industry will not only fail but will also cause social disruptions worse than the social maladies it is intended to alleviate.

These features of this kind of governmental intervention are prominent in two leading cases, those of Italy and Britain, though they are also clearly visible in other known cases. For centuries in Italy the differences in culture and in standards of living between the North and the South have been as marked as between two separate nations. By far the greater part of industry is in the North, especially in Lombardy and Piedmont. Since the last World War, the industrialization of the South has been a prime object of public policy. The state and private industry under state pressure have invested immense sums in steel and automobile plants in the South. The only conspicuous result has been loss on a grand scale. The North's industries are hobbled by the resultant taxation, and the South remains as essentially a non-industrial or pre-industrial society as before.

In Britain, the South and East were for centuries more prosperous than the North and West by reason of advantages of soil, terrain, and climate. The Industrial Revolution reversed this. The great staples of coal, iron and steel, textiles, shipbuilding, and other industries arose predominantly in the North and West. But since the First World War the balance has swung to the South and East again. The restoration of prosperity to the North and West has thus become a prime object of public policy. Partly government investment, but mainly direction of industry under compulsion or by handsome tax and other inducements, have been the policy's instruments. Yet the imbalance between the regions remains, while prosperous firms forced to go to locations which they would never have chosen in freedom of choice have had to report debilitating losses.

While politicians and bureaucrats wring their hands at the apparent intractability of the problem, they close their eyes to its causes. In this case an imbalance was at first inevitable as the staple British industries received the impact of the dislocations of world trade caused by the World Wars and of the rise of competitive activity in new industrial countries. The problem was not the emergence of the imbalance but its persistence; and for this one must look at the policies which have weakened the British economy for several decades. National wage agreements, made all the more damaging to the weaker regions by trade union power and practices; the rigidities of rent controls and publicly provided housing; high taxation; the enticements of state welfare; the equalization of local government expenditure by central subventions; the pull of expanding Government to its center in the South East—without these influences, costs in the less fortunate areas would have adjusted themselves so as to correct the imbalance except to the extent that it was rooted in unoffsetable natural advantage or disadvantage.

Regulation

Regulation of industry takes many forms. Its manifold harmful effects are perhaps best observed in the economy of the United States. Here, in what was once the citadel of free enterprise, the economy has been subjected step by step to regulatory power of extraordinary range, complexity, and penetration.

By a large margin its preponderant effect has been harmful, even destructive.

In the case of public utilities of the so-called natural monopoly kind, the verdict of careful studies has been that as far as rates or prices charged are concerned, regulation has produced no discernible significant benefit for the consumer. But this does not mean that it has had no economic effect. It has undoubtedly distorted the cost structure of the electric power industry, for example, and so militated against the efficient use of resources. The end result has therefore probably been some harm, not benefit, to the consumer.

However, the grip of regulation on the American economy concerns a very wide range of activities outside the field of "natural monopoly" public utilities. The oldest and probably most important regulatory body is the Interstate Commerce Commission (ICC). In a life of over ninety years the ICC has done incalculable harm to the American economy. It has been the essential cause of the decay of the railroad industry. The rise of the car, the truck, and the airplane was bound to force the railroads to slim down. But to slim is not to become unhealthy. The process of slimming may involve a painful period of reduced profitability and perhaps losses, but once it is through the result may be a return to healthy profitability, based on a different capital structure and a different market coverage. In contrast the cartelization of the railroad industry by the ICC hardened its arteries and brought about inevitable decay. On the one hand, it administered a sleeping pill to management. The typical railroad company became no place for the keen, go-getting businessman of American lore. On the other hand, it undermined the defenses against the inordinate demands (especially, for example, for featherbedding) of the Railroad Brotherhoods. In a fiercely competitive environment, especially when an industry needs to slim, management is forced to face the demands of labor with stern resistance, but the courage and resolution thus displayed ultimately help to engender the return to excellent profitability. The ICC aborted all this. In addition, it imposed a substantial tax on the American consumer when in a misguided attempt to shield the railroads from the competition of the truck, it was granted authority to take the trucking industry under its wing, thus raising freight costs generally.

The younger regulatory agencies with a *modus operandi* similar to that of the ICC (for example, the Civil Aeronautics Board as it was before the recent wind of change blew some fresh air into it) have had, or will have in time unless they are dismantled, similar effects to those of the ICC. But some regulatory agencies try to combine the interventionist role of state authority in a mixed economy with the role of legal framework-making proper to a free economy. Others take a function which may well be justifiable in a free economy, but blow it up to such proportions that it becomes a monster of intervention in the affairs of free enterprise and of a free people.

An example of the first kind is the Food and Drug Administration (FDA), which, from its foundation in 1906 until 1962, was concerned with the oversight of the safety of food and drugs. There are some libertarians who would deny this function to state authority, but most champions of the free enterprise system would concede it (assuming that it is discharged in a reasonable manner, and no attempt is made to chase the will-o-the-wisp of perfect safety). In 1962, however, the FDA received authority to oversee the effectiveness of drugs, as distinct from their safety. This is par excellence an illegitimate intervention into the freedom of drug producers and consumers, and would still be objectionable even if it had not caused the grave retardation in the production of new life-saving or life-extending drugs, which has been its main effect.

An example of the second kind is Occupational Safety and Health Administration (OSHA). Most champions of the free enterprise system would agree that some public control of safety and health in mines, factories, and other workplaces is legitimate, though they would probably claim that in the United States it is a proper function for the states, not the federal government. The true purpose of making it a federal function is to prevent unreasonable safety and health controls from being thwarted by the competition of the states for industry. However, OSHA has indeed become a monster of oppressive intervention, whose main victims are consumers and the workers themselves. For the products of its heavy-handed intrusions into the economic process are lower wages, less employment, and higher consumer prices. Similarly the Environmental Protection Agency, which may in principle have some limited legitimate function, has become a monster of oppression.

Planning or intervention, the story is a grim one of error, illusion, and failure. The root is the inability to understand the signals of the free economy and their system of coordination. To the planner, the free economy is chaos. He sets out to replace it by order, but his order itself turns out to be chaos. By attempting to plan the whole economy, he forbids the very planning which is possible and necessary, namely the planning by individuals of their affairs.

The intervening state rejects complete planning because it sees some merit in the free economy. But it also sees demerit, which it calls market failure. Indeed, it has an itch to find demerit wherever it can be imagined. It sets out to correct what it supposes to be market failure, unaware of the intricate relationships which make up the market system of coordination, and unequipped with information as fine or complex as that which governs action in the market. Hence, it is oblivious to the fact that even true market failure, if such can be defined and discerned, may be preferable to governmental failure. Meanwhile in its eagerness to correct market failure, it tends to neglect its true task of shaping and maintaining the framework of law within which a successful market can work.

THE FALLACY OF LABOR UNIONS

In all countries of the free world trade unions are among the most prominent of institutions. In some their power surpasses that of any other private group. It may even surpass the power of the government itself. Trade union leaders are prominent national figures in all these countries and in some they sit in the seats of the mighty. Trade union acts, policies, claims, and decisions are always front-page news. Politicians can ignore trade union views only at their peril. Many depend upon union support for re-election; and even those who are known to have little or no belief in union intelligence or virtue must usually walk and talk warily where unions are concerned. Though the immense growth of union power has produced widespread resentment in all classes, including the working class and even the rank and file union membership, hardly anyone challenges the legitimacy of union existence. On the contrary, while there are critics of the legitimacy of almost every other institution in the free world, the legitimacy of trade unions is almost universally accepted. When people's anger is aroused against unions, their ire is almost always directed against what they conceive to be the abuses of their power, not against their very existence.

Ideological Foundations

The belief in the legitimacy of unions, and where it exists still more the belief in the virtue of unionism, arises from certain ideas which in varying degree have captured the minds of the people.

The worker is at an inevitable bargaining disadvantage *vis-a-vis* the employer. The union redresses the balance.

Without the union, the worker would be ground down to a subsistence standard of living.

The union raises the worker's wages at the expense of the return to capital, which otherwise would be excessive.

The free labor market, operating under the unimpeded influence of supply and demand, does not produce a definite price for any particular labor. Rather, it produces a range of possible prices. Hence the union can obtain a higher wage within the confines of a free market.

Without the union, the worker would be a mere "hand" and his labor a mere article of commerce. The union protects, and enforces respect for, his dignity.

Among believers in the class struggle, the union is the spearhead of the defense of the working class against its oppressors.

The union provides a countervailing power to that of monopoly capital.

The union is an expression of the inalienable right of association of free men.

The union's most conspicuous weapon, the strike, is an expression of the right of free men to withdraw their labor.

The union has a right to immunities or privileges to enable it, if necessary, to conscript workers into membership, for otherwise there would be an incentive to accept the benefits of membership without paying for them (the "free rider" problem).

Effects of Union Demands

We shall be able to assess these views the better if we first assess the effects of a successful demand by a union for higher wages for its members (and we may here include in wages other pecuniary or non-pecuniary benefits). If the higher wages are in exchange for, or result in, a comparable rise in productivity, so that labor costs do not rise, the outcome is satisfactory to all parties. The improvement imposes no costs upon third parties, such as consumers, non-union workers, or workers who are members of other unions. But this outcome is extremely rare, if it happens at all, despite claims to the contrary. It may happen that some rise in productivity takes place, but not commensurate with the rise in wages. Or the rise in productivity may be the fruit of new capital investment, or of improved technology, know-how, or managerial competence. Or it may be the result of some development outside the industry or firms concerned, such as an improvement in the nature, quality, or availability of materials or intermediate goods. Above all, unions are rarely content with a rise in wages merely commensurate with a rise in productivity, even where they play no part in causing that rise, and the champions of unionism would not regard them as successful if they obtained no more than this. Hence this case, real or mythical, need not concern our analysis of successful union action.

Suppose, then, that a powerful union obtains a significant increase in its members' wages. Who pays for this? The first thought may be, and often is, that it is the employer. Thus the worker is thought to gain at the expense of capital. But of course this is by no means likely. The employer whose labor costs rise, and who cannot offset the rise by greater productivity, will seek to pass it on. There are several possible candidates for the passed-on burden, consumers, other employees (that is, other than the members of the successful union), and suppliers of other factors of production. In most situations he will be able to pass on some of the burden, and in some situations all of it. To the extent that he cannot pass it on, the return on capital will fall, but so too almost certainly will the employment it is able to offer. Thus the net effect of the exercise of the union's power is to offset its members' gain by some loss of employment among them and by some loss of purchasing power if their product enters directly or indirectly into the goods they buy. In addition there would be harm to other workers and consumers, many of whom may have been poorer than the union's members, and possibly some loss to invested capital.

But all this is in the short run. Those who find some burden being passed on to them seek to avoid it. Insofar as they can do so, the union members' gain is short-lived. The most important case here is that of capital. Captive capital may perhaps be squeezed, but capital not yet invested cannot. A union which is powerful enough to squeeze capital in any industry sends out a signal to non-captive capital, saying "Keep out. Go elsewhere." Once capital shies away from that industry, the fruit of the union's power begins to wither. A reduced membership may continue for a long time to enjoy super-normal wages, but the cost is borne increasingly by the workers who have left or cannot enter their privileged group, by non-union workers and other union members generally, and by consumers.

It may be thought that if all unions are equally powerful and if all workers are unionized, there is no way in which any capital can escape the squeeze. This is a misunderstanding. In the first place some capitalists will prefer to consume part or all of their holdings if the return is to be squeezed. In the second place new capital will not be accumulated to the extent that it would have been. In the third place equality of power among unions is an impossibility, owing to inevitable differences of opportunities for organization and of elasticities of demand for the products of their work. Of course, it is possible for the average return to all capital, once invested, to fall, which is indeed what has happened in much of the free world (e.g., notably the United States and Britain) in recent years. The champions of unionism may then proudly proclaim that it is achieving its historic purpose. However, this fails to take account of the consumption and non-creation of capital. It has no more substance than would be the boast of good living by a farmer who was gradually consuming his seed corn.

It follows that while it is possible for a union to raise wages, in real as well as money terms, for its members, or at least for some of them, it is impossible for unions to raise real wages for the whole working class. If the social cake were fixed in size, the most that any union could do would be to snatch a greater slice than other union members or non-unionists, either as earners or as consumers. The larger the union the less is its power to snatch the greater slice, for a really powerful one is likely to be that of a smallish group of workers with some special skill. But though such a small union's members may gain as earners, they must lose as consumers. For the fewer its members and the more specialized their product, the more they must pay as consumers for the consequences of the actions of *other* unions, whose coverage must be the wider, the narrower is that of the specialized union.

However, the size of the social cake is not fixed. The most powerful factors which expand the cake are capital, enterprise, and know-how. Enterprise and know-how go preponderantly with capital, and if capital is squeezed, so too for the most part are they. Thus to the extent that unions squeeze captive capital, and threaten to squeeze capital which allows itself to become captive, they must reduce the size of the cake well below its potential. In due time, which in few cases will be lengthy, they must reduce the absolute size of the slice even of the most powerful union's members. The impoverishment thus caused by their own unions is masked for most workers partly because the consequences of their actions are not visible to them, but mainly because in most countries the unions have not become powerful enough to destroy the constantly beneficent effects of enterprise and know-how. Thus as they are persuaded by the unions to push toward a precipice, the workers are able to feel that they are making good progress under union guidance precisely because union power has not been great enough to get them to the precipice's edge.

In the history of economic thought, it is a misfortune that even some of the classical economists and their successors allowed their warm sympathy for the workers (the exact opposite of the anti-worker bias alleged by ignorant and malevolent critics) to induce them to produce loose observations suggesting that unions may raise wages for the working class as a whole. There are such observations in Adam Smith, for example, and still more in John Stuart Mill. Yet these observations were out of line with their own analyses, and the clear message of classical, neo-classical, and Austrian economics is that it is not possible. In the past half century the matter has been clouded by the assault on the free market on the ground of a wide range of alleged "market failures." In the fertile ground thus produced, a rich crop of superstitions has sprung forth. The belief that unions can benefit all workers is one of these superstitions.

The True Nature of Unionism

Our analysis also brings into the light the true nature of unionism. It presents itself as the protector of the worker in conflict with the employer. In fact it is, always has been, and must be, the agent of oppression by some workers of other workers. The conflict is only in a minor degree worker versus employer or capitalist. It is mainly and above all worker against worker. Our analysis makes this clear, but so too do the actions of the unions themselves. Union hatred and violence reach a crescendo not normally against the employer but against the "scab" or "blackleg," or against the employer when he shows himself ready to employ the "scab" or "blackleg." But the "scab" or "blackleg" is only another worker, almost always in greater need than the union's members, who seeks to do the work from which they have withdrawn. Where not forbidden by law, the well-known practices of unions to exclude women and racial minorities display the same worker versus worker conflict. When in the late nineteenth century great numbers of poor Europeans flooded into the United States, the most violent explosions of union activity (for example, in the steel industry) were directed against these job-seeking immigrants, though ostensibly against the employers. Samuel Gompers, the founder of modern American unionism, once declared "America is a paradise for workers. Let us keep it so," by which he meant "Let us press the American people and Congress to restrict immigration," although he was himself a fairly recent immigrant. Modern British unionism mainly dates back to the 1850s when the so-called New Model of craft unions developed. These unions did not conceal their contempt for the poor, less skilled workers who might seek to compete with them (hence the term "blackleg," and the now obsolete "knobstick" which denoted the ill-fed appearance of the poor worker), and their power was openly directed against them. All minimum wage legislation is strongly promoted and supported by unions for the same reason. The true purpose and effect of minimum wage laws is to keep the poorest and weakest workers from entering the labor market and thus possibly opening up some competition with union members. Minimum wage laws have the ugly distinction of displaying both the maximum hypocrisy and the most odious oppression of the poorest members of society (for example, notably many black teenagers in the United States who cannot get their feet on the lowest rung of the employment ladder because their labor is not worth the statutory minimum wage, and who are thus propelled into a life of indolence and crime).

Analysis of Union Ideology

We are now in a position to examine the ideas which have produced the power of unions and the belief in their legitimacy.

The belief that the worker is at an inevitable bargaining disadvantage *vis-à-vis* the employer is perhaps the most fundamental. It is also the most plausible. To very many it appears to be so obvious as to be beyond contradiction. On the one hand there is the worker, pictured at least metaphorically with his cap in hand, with little or no financial reserve and the purveyor of a completely perishable commodity, namely his day's labor which, if not purchased by the employer, dies with the day. On the other hand there is the employer, with ample financial reserves, able to make his choice from numerous workers, and in command of non-perishable or less perishable production. The belief, however, does not survive examination. It is not true that the typical worker has no reserve, nor is it true that the typical reserve of an employer gives him a bargaining advantage. Every observation of the labor market shows that the great majority of workers pick and choose between jobs and wait for something better than the first one that turns up precisely because they do have reserves. And if it were true that an employer's reserves gave him a bargaining advantage, we should expect to find that those with high resources would be able to pay lower wages than those with lower resources. In fact, the truth is the reverse.

Nor do the facts on perishability bear out the belief in the worker's disadvantage. Of course the day's possible labor dies with the day, but so, too, do the day's profit and interest on capital. In fact the employer's need to keep his plant and machinery working is often greater, indeed far greater, than the worker's need to avoid the loss of a day's labor.

We need to spend little time on the contention that without the union the worker would be ground down to a subsistence standard. The whole history of the free economy belies it. In the nineteenth century, unions were weak and often nonexistent, but the progress of the working class was steadily, and often spectacularly, upward. As we have noted above, recognition of this fact forced the Marxist Revisionists to amend their master's doctrine.

We have already examined the view that the union raises the worker's wage at the expense of the return to capital, and found it wanting. The idea that in a free market, unhampered by union action, the return to capital would be excessive is of a jejune character. By what measure do we assess what is excessive or not? In fact, the capital market is by no means the least competitive of markets, or the least apt to tailor returns to the value to consumers of the services rendered by capital.

The contention that the free labor market offers a range of possible prices (the so-called indeterminateness of wages) has a long history. It has been used by union apologists for several generations. Yet its substance is flimsy. All markets have an element of price indeterminateness, some more, some less. It is possible, though by no means certain, that some labor markets (there are many separate markets for labor, not just one) are in the higher ranges of indeterminateness. But it does not follow that the union will always find the upper level of the range better than the worker himself. In some cases it will; in other cases it will not. For the worker whose quality and character are superior to the average, the union's pursuit of a high degree of uniformity for large groups of workers ("the rate for the job") is, in fact, damaging. If his price is indeterminate, the union presses him down to the lower level of his range.

The claim that the union is the protector of the worker's dignity is important. It is also persuasive because there are cases where it is, or can be, true, and the claim is calculated to bring the picture of these cases into the observer's mind. Yet the facts show that as a generalized claim it is empty. First, as long as unions were without special legal privileges enabling them, in effect, to conscript workers into membership, their percentage membership of the working class was small. Thus as late as 1929 in the United States it was well below 10 percent. In 1914 in Britain, when the unions had already enjoyed powerful legal privilege for a number of years, it was only 14 percent. If the worker needs a union to protect his dignity, how is it that the great majority of workers were unaware of it, or judged that the benefit was not worth the cost of membership, or had a different protection for their dignity, or (which is most unlikely) did not consider their dignity worth protection? Second, the market itself is a protector of the worker's dignity. An employer who acts on caprice has to pay for it. His range of choice among workers is narrowed, and he is under pressure to pay above-normal wages to compensate for his caprice. Of course if it were true, as to some extent it was in pre-capitalist times, that all workers were subject to indignities, the contention would have more substance. In fact it is the freedom of choice produced by the free market that has emancipated the worker and liberated him from any necessity to submit to indignities.

We need devote no significant space here to the theory of the class struggle. The true struggle in our times is between those of all economic and social classes who wish to retain at least the broad features of a free society, and the totalitarians in our midst who, under cover of illusory benefit to the working class, or the nation, or some other conceptualized group, are bent upon the destruction of our freedom.

Monopolies

The concept of the countervailing power of the unions against monopoly capital has two facets. In the well-known form presented by Professor Galbraith, the monopoly capital is not a wage-bargaining or labor-hiring monopoly but a monopoly of control over the consumer and the economy generally. It need not detain us. Like all Professor Galbraith's propositions, it comes from the top of his head, without research into the facts or any serious consideration of them. It was exploded long ago by Professor Stigler ("The Economist Plays with Blocs," *American Economic Review,* May 1954), to whom Professor Galbraith was able to reply only in his wonted manner of flippant sneers. It would be well to pass over this episode in a decent, though embarrassed, silence.

In another form, however, the concept has an old lineage and merits serious consideration. In a famous passage, Adam Smith observed that employers rarely met for social or other purposes without considering how they might in concert hold down the level of wages. If there is any kind of combination amongst employers, it appears to be very persuasive that the countervailing power of worker combinations should be called into action. The simple fact is that employers' cartels in the market economy are and always have been weak, fleeting, and rarely widespread arrangements, of little consequence for the determination of wages over anything more than a short period, except that in pure defense against the power of unions, employers' associations of a permanent character have arisen in some industries. As unions commonly seek industry-wide agreements, employers find it necessary to face them with something like an industry-wide front. But in the first place, there are very few, if any, employers' associations which have complete industry-wide membership, so that a situation in which there are competing employers is the norm. In the second place, the unions' countervailing power can hardly be justified by the existence of employers' associations which arise merely in defense against them. In the third place, anyone familiar with these employers' associations will testify that they are the reverse of aggressive, that they are indeed generally timid bodies, and that they do not attempt to extend their cooperation to the markets for their members' products. This last point is the most important. For a true employers' cartel which could hold wages down effectively would have to proceed to agreed prices in the markets for their products. Quite apart from anti-cartel legislation, such product cartels are notoriously of a precarious and evanescent character.

The contention that the union is an expression of an inalienable right of association is heard very frequently, and appears in some statements or charters of human rights. Yet a moment's consideration demonstrates that it is without substance. There is no right of association for all purposes. Some associations are criminal conspiracies. Obviously the right of association is limited to lawful purposes. To assume that there is an inalienable right of association in unions is to assume that unions must be lawful. Since unions are cartels or monopolies, their right to be lawful is clearly a matter for debate, since it is hardly possible to maintain that anti-cartel or anti-monopoly legislation is *per se* inadmissible. One may well argue that such legislation is generally undesirable, or that any particular anti-cartel or anti-monopoly law is undesirable. In particular one may argue that for special reasons unions above all should be exempt from any such legislation, but this is quite different from asserting that they have an inalienable right to exist. The confusion here often arises from a remarkable and unspoken assumption that unions —that is, bodies set up for collective bargaining—are the only associations that workers want or need. The fact is that before legal privileges enabled the unions to embark on empire-building, workers set up associations of various kinds which were mostly admirably suited to their economic and social advancement, such as, in nineteenth-century Britain, mechanics' institutes for education, friendly societies for sickness and old age insurance, and retail cooperatives for improved purchasing of necessities. It is one of the deplorable results of the growth of union power and of the rise, largely under union political pressure, of the welfare state, that these self-help associations have been phased out or downgraded.

The Right to Strike

If, which is not always the case, it is honestly asserted, the contention that the strike is an expression of the free man's right to withdraw his labor displays a lamentable intellectual confusion. It is entirely true that a free man has a fundamental right to withdraw his labor, subject to any contract which he has voluntarily made with his employer. That is what distinguishes him from the serf or the slave. When the free man withdraws his labor, he withdraws from the job, which at that time he declares is unsatisfactory in remuneration or in some other feature. The employer is then free to seek any other labor that may be available. Of course, the free worker has a right not only to withdraw his labor but also to do so in concert with other workers. Furthermore, his action is within his right and therefore legitimate, whatever his motive may be, as long as he exercises his right peacefully and without breach of contract. If his purpose is to put economic pressure upon his erstwhile employer, he is fully entitled to do so.

The striker behaves quite differently. He withdraws his service, not his labor, which he declares to be married to the job. The job, he maintains, belongs to him even though he has withdrawn the service required by it, and woe betide any "scab" or "blackleg" who seeks to render the service in his place. To call this an expression of a free man's right to withdraw his labor is to make a travesty of language, and this is the case even where the strike is not called in breach of contract. All too frequently it is a gross breach of contract. The fact is that the striker takes the position that the employer is tied to him, which is precisely the position of a serf. To picture the employer as a serf may appear to be fanciful in the extreme, for the popular image of a serf is that of a man marked by great poverty. What distinguishes a serf from a free man, however, is not poverty but the fact that he is tied to the land he cultivates and thus to the owner of the land.

The "free rider" justification for enforced unionism is as odious as it is entrenched in the public mind. It takes the union's service at the union's own valuation. We have already noted that the superior worker is certain to lose insofar as union action is effective, and to call him a free rider if he chooses to reject membership is to add insult to injury. We should note here a possible misunderstanding. Superior groups of workers such as those of special skill may well gain in the short or medium term from union action. It is the individual who is superior to the average of his group who inevitably loses. In any case, any worker who perceives that benefits from union action are taken at the expense of other workers, especially the unemployed and consumers, and that in the long run the benefits become negative will rationally oppose union membership. It is the union which is the free rider, not the worker.

The Worker's Master

So far we have accepted the usual assumption that the union exists for the service of the worker, however misconceived or counterproductive its actions may be. In the early stages of unionism the assumption is correct, except in the case of racketeering unions, or unions linked with organized crime, or those whose leaders make "sweetheart" contracts with employers. The assumption is also correct even in the case of mature unions, where their power is limited. But the assumption becomes less and less correct with the growth of union power. Once that power reaches a certain stage, which it did long ago in the case of the leading unions in numerous western countries, notably Britain and the United States, the assumption becomes false. The union then becomes the worker's master, not his servant. The worker must avoid censure, and still more the withdrawal of his union card, by the union establishment, for fear of the loss of his livelihood. Insubordination where the employer's orders are concerned may be safe enough because the truculent worker may receive the united support of his fellow workers and the union, but woe betide him if he treats his union officials or his shop steward in like manner. In this situation union power attracts the power-seeker. The union leader is at the head of a large establishment, to a considerable extent a bureaucratic establishment, which is itself a power structure. The union's purpose becomes much wider than mere collective bargaining. The leader becomes a national figure, pronouncing weightily on political and social affairs. Thus, commencing its career by offering service to the worker, the union proceeds to climb on his back, and from that favorable position it seeks to climb on the back of the whole society.

It is often contended that this account of the union's power over the worker is untrue or at least defective, because wildcat strikes are common, because the worker often stands in greater awe of his shop steward than of the union official, and because in any case each member has a share in the democratic control over the leaders. The contention has little substance. Wildcat strikes offer an illusory picture of independence or freedom of action, but the truth is that they themselves rest upon the union's power. If it were not so, employers would be able to make them very costly for the workers. They cannot because they know that the union will rise to the defense even of their wildcatting members, if employers seek to apply heavy-handed action against them. That the worker must doff his cap more to the shop steward, whom he sees every day, than to the union official, whom he may not see for months, does not mean that the union is not his master. The shop steward's power would not long survive the end of union power, even though the shop steward is not a union official. As for the democratic control of union power, its weakness or total absence is one of the most prominent features of the world of unionism. The union leadership, whether vested in a single leader or in an executive committee, is often no more than a plebiscitary dictatorship over the members even where elections are not manipulated. In the common case of manipulation by activists, often in pursuit of political goals, the plebiscites are largely a sham.

Conclusion

In the nineteenth century workers turned into a cul-de-sac when they began to look to unionism for economic advancement. It has had fateful consequences for them and for the whole of society. The great majority of workers would not have entered this blind alley, or having entered would not have remained in it, had not the unions acquired *de facto* or *de jure* extraordinary privileges. Someday the free society will rouse itself and terminate these privileges. In that day a wise legislature somewhere will pass an "Emancipation of Labor Act."

MORALITY AND CAPITALISM

Among those who oppose the free economy, or are uneasy about it, there are many who agree that it is more efficient than any other but feel that it lacks any, or any sufficient, moral foundation. They are right to maintain that the ability to produce an abundance of material wealth is not enough. People will not live for long with a system for which this is the sole recommendation. They want to feel that their economy is a just one, or at the very least no more unjust than may be unavoidable in any society of men who are far below the angels. The champion of the free economy is therefore under a duty to show that it meets the requirements not only of efficiency but also of morality.

Allegations against Capitalism

It would be tiresome to set out all the allegations of immorality which have been made, and usually hurled, against the free economy or free enterprise system. Many are merely the product of ignorance or malevolence or both. It suffices to direct our attention to the following contentions. They are linked with, and overlap, each other and embody the substance of all the allegations which merit examination. What they are directed at is always styled capitalism, not because the descriptions "free," or "free market," or "free enterprise," economy are inaccurate (though they may be said to be), but because their flavor is too attractive for the taste of the critics of the system, whereas enough venom can be injected into the description "capitalism" to give it a pejorative sound. The champion of the free economy does not need to reject the name "capitalism," for it is quite acceptable. Nevertheless it is not the most accurate name for the system of freedom.

> The capitalist system produces a society of gross inequality of wealth and income. It is good for the rich but bad for the poor.
>
> The capitalist system is based on greed, selfishness, or self-seeking activity. Hence the greedy and selfish come

to the top.

The capitalist system is based on individualism. Its view of society is atomistic. Hence it undermines the social virtues and, in particular, the feelings of compassion and brotherhood which make the good society.

The capitalist system subjects people to the impersonal forces of the market, and thus undermines the personal relationships which turn an assembly of men into a true society.

The bourgeois virtues which are claimed for capitalism are inferior both to the aristocratic virtues of honor and noblesse oblige and to the working class virtues of comradeship.

Inequality

We need devote little time to the contention that capitalism is good for the rich but bad for the poor. We have already noted the fundamental truth that it is the greatest uplifting force for the poor that the human race has known in the millenia of its existence. The very idea that the masses could ever be lifted out of poverty is a product of capitalism and its associated ideology. The question of inequality of wealth and income merits greater attention.

There are three forms of equality which have attracted the minds of men; namely, equality before the law, equality of opportunity, and equality of condition. Equality before the law is a distinguishing mark of the free society. It is not the same as the Rule of Law, but it is closely associated with it. Equality before the law is also closely associated with constitutional government, and without it justice between man and man is hard to envisage. It is also well capable of achievement. The slight shortfall from perfection which arises from differences in access to the best, and therefore the most scarce, forensic aid is of little significance compared to the shortfall from perfection in the achievement of almost all other legal, political, or social ideals. By its nature it must be in conflict with equality of condition. For under its principle the law is no respecter of persons. It protects the property of the rich equally with that of the poor. No man is greater than the law, and all are subject to it. It protects the sanctity of contract by whomsoever it is made. It defines torts and crimes by the nature of the acts concerned, not by the rank, identity, or personal merits or demerits of the persons involved. Under such a principle, the different endowments of different people in intelligence, character, physique, and the rest must produce inequality of condition which will be protected by the law. To attempt to ensure equality of condition requires law to be discarded in favor of the constant, unremitting, and arbitrary repression by some authority of the innumerable factors in life which produce inequality.

Equality of opportunity is an elusive concept. Often it is intended to mean simply the principle of "la carriere ouverte aux talents," or that there are no caste distinctions enforced by the law to distinguish one man's rights from those of another. In that sense it is really a corollary of equality before the law and is unexceptionable. In another sense, however, it is quite inconsistent with equality before the law and requires to be bolstered by arbitrary governmental action almost as much as equality of condition. In this sense it requires that everybody is made equal at the starting gate of life's races. Hence it appears to call for governmental discrimination in favor of those who are thought to suffer from some form of disability. Since true equality of opportunity in this sense is an impossibility—indeed even a near approach to it is impossible—it turns out to be an excuse for the bestowal of governmental favor upon easily identifiable groups who are supposed to suffer from past or present social inequities, and whose pacification or electoral support is attractive to the authorities.

We have noted that equality of condition calls for policies and practices inconsistent with the principles of a free society, especially the Rule of Law. It is worse than this in that it inevitably calls forth and relies upon envy and hatred. Of all anti-social forces known to human society, the pursuit of equality of condition is probably the most corrosive.

The most important feature of equality of condition is that it is impossible to attain. Hence once the equality-mongers achieve power, it is quickly forgotten except as a slogan to divert the attention of the ordinary people from the privileged inequality which the rulers reserve for themselves (consider Orwell's "War is Peace," "Freedom is Slavery," "All Animals are Equal but some Animals are more Equal than Others"). If there are any innocent souls among the equality-mongers who meant what they said, they are soon disposed of.

Thus it ill becomes socialists to assail the inequality of capitalism for, once achieved, socialism produces inequality more gross and obnoxious than anything observable in a developed capitalist country. However, since there is some merit in a wide degree of a fairly equal condition insofar as it does not hinder desirable incentives or varieties of life styles, it is important to consider which kind of system is most likely to achieve it. The clear answer is capitalism. Socialism ostensibly pursues equality but produces inequality. Capitalism pursues liberty but in the process also reduces inequality. We have already noted that in capitalism wealth comes to those who serve the masses. Thus in capitalism the inequality of condition is little more than the difference between the Cadillac and the Chevrolet, the Parisian couturier's model and the excellent mass-produced copies of it, caviar and the equally nutritious cod's roe. In pre-capitalist societies it was the difference between the mansion and the hovel, between silks and rags, between exquisite luxury and frequent famine. In socialist societies it is between the luxurious country villa and the miserable worker's flat, between the special shops carrying the high-quality goods imported from capitalist countries reserved for the Party elite and the endless queueing for the shoddy products of socialist industry imposed on the masses.

Greed and Selfishness

Picture four men purchasing food in a market. Though their purchases are different, their behavior is the same. Each seeks to obtain the best bargain he can. The first is a gourmand, the personification of greed and selfishness. The second is a gourmet. He too is concerned with self, but though we may criticize him on that score, we also admire his taste and we recognize that he may elevate the taste of others. The third is in the market to feed his family. There is a self-regarding element in this, but most of us will consider that his purpose is a highly worthy one, the hallmark of a man who discharges the most basic of his responsibilities. The fourth is the manager of an orphanage. His purpose is to feed the orphans and to do so to the best advantage permitted by the funds available to him. His purpose, we agree, is as unselfish as can be. Yet as we watch our four men in the market as they look for bargains and perhaps haggle with the vendors, we are unable to distinguish between them. The selfishness or unselfishness of their motives will be no help to us. The orphanage manager may be the most determined bargain hunter and haggler of them all.

So, too, with men who seek to amass wealth. The aim of one may be to serve his grosser appetites, of another to serve his refined appetites, of another to provide ease for his family, and of another to endow a church, a university, a museum, or an orphanage.

This illustrates the naivete of the view that capitalism is based on greed and selfishness. Its business is to serve men's purposes, whatever they are; and its claim to our respect and admiration rests upon the indisputable fact that it serves them better than any other system known to man. It is for philosophers, priests, and preachers to show men the way to the higher purposes. However elevated or debased their purposes may be, the market will serve them, save that, since the market itself requires a framework of law, the law will forbid the service of purposes which infringe the rights of other men and possibly also those which offend against some concept of public morality. For this reason the market is not neutral between elevated and debased purposes, but slanted in favor of the former.

However, it may be contended that since most men have a large element of selfishness in them and some are wholly moved by it, the free economy in serving their purposes must be largely an engine for selfishness; and that, therefore, capitalism must be inferior to a system which controls men's purposes and positively directs them into the higher channels. This appears to be a plausible contention. But let us test it.

First, for centuries in pre-capitalist times men were powerfully urged to practice the Christian virtues, to heal the sick, to succor the poor, to sustain the widow and the orphan, to avoid the seven deadly sins, in which forms of selfishness loomed large. Yet human life was cheap. Oppression was universal. Cruelty which would now appall us was commonplace. Punishments were inhuman. At the same time freedom to trade was limited and freedom of enterprise was repressed. It was no coincidence that the treatment of man by man became conspicuously more humane contemporaneously with the rise of capitalism. The ideology which produced the one also produced the other. But that was not all. The extreme poverty of the vast majority of the people in pre-capitalist times made life cheap and invited inhuman treatment by the favored few above them. It was the elevation of the standard of living of the masses which made such treatment progressively less possible. To take a not so trivial example, for centuries domestic servants could be physically chastised and made to sleep in holes and corners because no better alternative was open to them. The growth of capitalism can actually be traced by charting employers' complaints about the ever-rising demands of domestic servants for better conditions so that now only the very rich can afford them at all.

Second, consider the United States and Britain in the high noon of capitalism. These were the capitalist nations par excellence. If we are to credit the criticisms of capitalism, they should have displayed greed and selfishness to the nth degree. According to Carlyle and Ruskin, whom we would now call fascists, and the professors of Prussian socialism, they did. But suppose that there was a famine, or an earthquake, or a volcano eruption in Timbuctoo. Where first and most of all were subscriptions for relief funds opened? In America and Britain; not in statist France, or imperial Austria, Germany, or Russia. Where were private charitable organizations of all kinds, covering all sorts of social and individual purposes most typical and conspicuous? Again in America and Britain. The plain fact is that the environment produced by capitalism is of all those yet known the most conducive to the exercise of brotherhood and charity. All the critic sees is capitalist striving for getting and spending. In his view anyone with eyes in his head can see this and only this. So too, as we have noted, can anyone with eyes in his head see that the earth is flat.

Atomistic Individualism

Was there ever a doctrine more flyblown, despite its grip on many notable minds, than that which sees capitalism as the system of atomistic individualism, without the cement which makes a true society? Consider again the United States and Britain in the high noon of capitalism, and also Holland and Switzerland at a comparable time. Were there ever more cohesive societies than these, with people more imbued with a common pride in their society (the very special conflict of the American Civil War excepted)? While the rest of Europe had revolution after revolution, the national unity of the British, the Dutch (after the Belgians had detached themselves), and the Swiss (despite three main languages and diverse cantonal histories), wedded as they were to private property and to trade or industry, was unbroken by the political conflicts and controversies which they, like others, had.

The error here lurks in the failure of the critics to understand the distinction between the political and the social, between state and society. In his relation with the state, the free man insists on his individual rights. He requires government to be limited and circumscribed in power. He views the state not as a god but as one association among many, like his church, his club, his college, even his choral society or his pigeon fanciers' group, but he recognizes it to be an association of very special importance, as he possibly also recognizes his church. The critic sees this and accuses him of atomistic individualism. In treating the state as a mere association, it is said, he cheapens the bonds which tie him to it, and he deprives the state of the mystique which properly adheres to it.

The truth is otherwise. The free citizen takes a pride in his state precisely because its limited power obliges it to respect his freedom. His loyalty to it is thereby enhanced, not diminished. He does accord it a mystique, the mystique which enthuses him when he proudly declares that he lives in a free country. He knows very well that it is more important than any other association, except perhaps his church, which is why it is usually the only association for which he may be ready to lay down his life. At the same time, precisely because the state respects his individual rights, he finds it natural and easy to enter into a web of voluntary relationships with his fellow men, which is the true cement of his society. Contrary to the assertion of his critics, he knows very well that a society is more than a mere assembly of individuals and he and his fellow free men are much more successful in building it than are the members of any unfree society.

It is regrettable that many conservatives, who genuinely prize freedom but are made uneasy by individualism, do not understand this, and are therefore led to injure the capitalist system in the supposed interest of national unity or social cohesion. Thus they are ready to give tariff protection or subsidies to ailing industries in the presumed interest of the relief of distress or of social harmony, or under the illusion that they are actually strengthening the capitalist system. Given time, the result is always to shatter the cement of society, not to keep it whole.

The Impersonal Forces of the Market

That capitalism subjects people to the impersonal forces of the market is true. This is an inevitable condition of existence in the Great Society. The Great Society gives each man enormous advantages. Instead of being limited for his sustenance to whatever his family and close neighbors can provide, he is able to tap the resources of almost the whole world. At the same time the value of his service to others is greatly enhanced by the worldwide spread of the links between him and them. As Adam Smith told us long ago, the scope for the division of labor depends upon the extent of the market, and the division of labor is the foundation of any civilized standard of living and indeed of civilization itself.

Subjection to the impersonal forces of the market may at first sight be regarded as simply the price to be paid for great economic advantages. But are there only economic advantages? In the first place the Great Society does not exclude the personal relationships which govern a family or a small isolated community where all are known to each other. The members can continue to support each other with affection and respect in addition to material sustenance. In so doing they are aided immensely by the opportunities presented by the Great Society, which requires them only to be ready to adjust to the ever-changing signals of the wants and offers of others. In the second place the personal relationships, benevolent or otherwise, of a family or small community cannot be transferred to a large society, for they depend upon everyone's knowing everyone else. To attempt to run a large society like a family would produce either despotism or chaos. Indeed the reason why socialism inevitably brings despotism or chaos, or a combination of both, is that it seeks to run a large society as if it were a family. Thus the emergence of the large society schools men in the nature and meaning of politics, thereby raising the stature of men. The market, which is the economic framework of the large society, thus brings more than mere economic benefit.

Bourgeois, Aristocratic, and Working Class Virtues

It has been a long time since the bourgeois virtues were the leading lights of our society. Work, saving, enterprise, sobriety, self-discipline, respect for the law, and the sanctity of contract, these no longer command the admiration that they did. But that may be the very measure of our society's decay. It is true that the aristocratic virtues of honor and noblesse oblige have great attraction, and it is arguable that the finest societies of modern times have been those in which the bourgeois and aristocrat meshed with each other, each learning something from the other's virtues (for example, Victorian Britain, and the America once led by the New England-Virginia combination). But this is no reason to denigrate the bourgeois virtues. Even when standing alone they clearly produce a more humane and elevated society than the aristocratic virtues ever did when they stood alone (compare, for example, bourgeois Holland in the seventeenth century with aristocratic France). As for the working class virtues of comradeship and perhaps patience, they are sometimes, but by no means always, admirable, but their leading characteristic is limited vision. To compare them with the bourgeois virtues is simply ludicrous. A society imbued solely with the working class virtues could hardly rise above a primitive level.

The Positive Case for the Morality of the Free Economy

So far we have considered the alleged immoralities or moral deficiencies of the free economy, and our concern has been to refute the indictment. We must now turn to the positive case for the morality of the system. We shall consider private property as an agent for moral training, the work ethic, and the practical application of the principle of love for one's neighbor.

Property and Moral Training

The private ownership of property is a central pillar of the free economy. The enemies of the free society correctly see that if they are to succeed they must direct their attacks against private property, perhaps in all its forms but at least in the form of the ownership of the means of production. We shall argue here that the institution of private property is an indispensable agent for training in morality, and that, therefore, its central position in the free economy makes for morality in the system. But first we must consider the legitimacy of private property itself.

It is difficult to find anything of consequence in the propositions of moral philosophy or the teachings of religion or the prescriptions of great lawgivers to cast doubt on the legitimacy of private property. Of course, there are many denunciations of the misuse of property, or of the pursuit of wealth above more worthy purposes, but in the wisdom of the ages the ownership of property is per se legitimate and even praiseworthy. The well-known observations in the New Testament which suggest that men would do well to dispose of their property and completely abandon the accumulation of any wealth at all have very rarely, if ever, been treated as a prescription for the generality of mankind or for a world not about to enter a messianic age. In any case, they are hardly consistent with the general tenor of the Gospels, which assume the existence and maintenance of private property, and they are entirely inconsistent with the lessons of the Old Testament, including those features of it which the Gospels do not seek to amend or improve upon. Witness the vineyard owner in St. Matthew who asks "Is it not lawful for me to do what I will with mine own?" and is in no way rebuked. Witness the Eighth and Tenth Commandments which clearly envisage the rightful ownership of property. Witness righteous Abraham, the Lord's chosen, who is blessed with great wealth. Witness upright Job who, when he comes triumphantly through the terrible tests which Satan is allowed to impose upon him, is rewarded by the Lord not merely with the restitution of his ample property but by the doubling of it. Clearly private property was legitimate in the eyes of the Lord. Witness the good husbandman who constantly receives the praise due to a worthy character. In general, the ownership of private property has no need to excuse itself.

But what about the ownership of the means of production? In Marxist theory this is the great determinant of the character of society and its historical development, and in the capitalist era the source of all evil. Non-Marxist socialists also have directed their attacks against the private ownership of the means of production. Is there a case for the view that this category of private property may be illegitimate? The owner of the means of production is a capitalist. His ownership, it is said, enables him to dominate the lives of others, especially the workers. Such a power, it is alleged, should not exist.

These contentions do not even begin to survive analysis. First, the alternative to private ownership is common ownership. Does common ownership of the means of production not dominate the lives of men? Only if one assumes that the decision-makers in common ownership think only of the interests of the people and also know what those interests are and how to serve them. This is a nonsensical assumption. Our discussion of central economic planning and of the nationalization of industry has shown that "common ownership" is not common ownership, but private ownership of a specially harmful character. The rulers of the "commonly owned" means of production are thereby invested with power over the people to the nth degree, and they use it. But even if they wish to use it in a wholly benevolent way, which is as unlikely as the proverbial freezing of hell, they cannot know how to do so. As we have seen, this is because they do not have the signalling system necessary for such a purpose. By contrast the private ownership of the means of production in the capitalist system is dispersed and thus in competitive hands. The idea that it dominates the lives of the workers is really a variant of the notion that the worker is at an inevitable bargaining disadvantage with the employer which we have examined and found wanting. If it were plausible to say that the capitalist ownership of the means of production dominated the lives of the workers, it would be equally plausible to say that the workers dominated the capitalists because they owned the labor without which the means of production are valueless. Indeed this may actually be true where the workers are organized in a powerful union monopoly and the capital is captive, except that, as we have observed, in due course the workers' monopoly has boomerang effects.

Second, what is meant by the means of production? They are always assumed to be factories, plants, and machinery; in short, what the capitalist owns. But we have already noted that labor is necessary to give these means of production their value. The truth is that labor is itself a means of production. So, too, are all the other inputs in the production process. In fact, almost anything can be a means of production.

We have established the legitimacy of private property. We can now pass to its positive virtue. Picture the good husbandman. As with devoted care he raises the fertility of his fields and improves the quality of his livestock, always concerned to pass on his trust in finer shape than that in which it came to him, we watch him and admire him. This, we feel, is how a man should live. Whatever God or Nature, according to belief, puts into his hands he should use with diligent care, treat as a trust, and pass on to his successor in a condition to be proud of. The same admiration ought to be aroused by the good factory, mine, warehouse, shop, or bank manager, and sometimes is, though in practice many of us still have the atavistic feeling that the farmer is the producer par excellence and that these others are somehow not so worthy. But why is our admiration justified? Because we see in the good husbandman how the ownership of property has produced in him a moral attitude to the bounty in his control, to those who co-operate with him in his activity, and to those who will acquire it and its increase after him. This applies to all property. Every time we treat it with care and diligence, we learn a lesson in morality. This is why the private ownership of property lends a moral dimension to the capitalist system. Contrast it with the treatment of so-called public property. No one needs to be told with what carelessness and lack of diligence most of us deal with it, whether in free or in communist countries. In fact, in communist countries the almost universally slack and dishonest treatment of communal property presents the rulers with one of their most intractable problems, and that despite the most painful and even barbarous penalties for transgressions. In this field as in others the semi-socialist, semi-liberal, societies of the West go far to undermine the attitudes which gave them such moral stature as they still have, as well as their liberty and their wealth. Confiscatory inheritance and capital gains taxes, in addition to heavy income taxes on individuals and corporations, erode the attitudes which treat property as a trust to be improved for future generations.

There is another moral consequence of the attitudes engendered by private property, namely respect for the sanctity of contract. Sanctity of contract is one of the most important elements in the cement which binds a civilized society together. At the same time it has an elevating effect on man's character. It tends to arise naturally in a society which respects private property. "Verbum meum pactum" is the proud motto of the London Stock Exchange, an inner sanctum of capitalism, as its enemies, and perhaps some of its friends, envisage it. What more moral declaration is there than that "My word is my bond"? With the growth of socialist ideas, policies, and practices in the western world, the belief in the sanctity of contract has crumbled away sadly and conspicuously. This is not the least of the evidences of moral decay in our society. Of course it is easy to denigrate sanctity of contract when the creditor demands payment from a hard-pressed debtor. Then the creditor is malevolently pictured as a Shylock, demanding his pound of flesh. The truth is that a society that is guided by the morality of aggrieved debtors is on the way to disintegration.

The Work Ethic

A freshman student of economics who knows that "there ain't no such thing as a free lunch," and why, has already gone far in the understanding of his subject. When Adam and Eve were expelled from Eden, the Lord said to Adam, "By the sweat of thy brow shalt thou earn thy bread," and this has been the human situation ever since. It is regarded as the curse of Adam, but in reality it is no curse. To know that, apart from a few blessings like the air around us, nothing in this world is free, that everything has a cost which must be met, is a powerful agent of moral training. In a society rooted in individual responsibility, this is brought home to everyone. In a world of collectivism everything still has a cost, but the people are tempted, indeed to a large extent are urged, to behave as if the cost will be borne by someone else, usually the so-called "rich." The joke is then on the "poor." For it turns out that the taxes needed to meet the cost are levied on them as well as on the "rich," and sometimes even more heavily owing to the incidence of sales taxes and the rules relating to the effect of income on welfare payments. At the same time in a collectivized society the costs of everything are so jumbled up that nothing can be individually costed. This in itself tends to produce a tendency to act as if there were such a thing as a free lunch.

Historically the work ethic is associated with the rise of capitalism, and has often been attributed to the impress on men's minds of Protestantism, especially in its Calvinist form. However, the truth is that the work ethic can be seen to have been in operation wherever capitalism developed, including Catholic and non-Calvinist Protestant areas. The difference was merely that it was given more explicit expression and a higher importance in Calvinist thought than in other religious teaching. Just as it is easy to sneer at respect for the sanctity of contract, so it is easy, indeed easier, to sneer at the work ethic. The adherent of the work ethic is pictured as one who thinks of work as an end in itself, not as a means to the good life such as the use of leisure, the experience of pleasure, or contemplation. It is true that in the work ethic there is an element which regards work as good whatever it is devoted to, but this is not the same as believing that work is good in itself, though it looks like it. For even in such a case the work is regarded as good because it gives men a form of moral training or at least because it protects men against "the Devil who finds work for idle hands to do." However, the main basis of the work ethic is the same as that which produces the good husbandman. It is that we are in this world to make something of it and ourselves, and to leave it better than we found it.

Love Thy Neighbor

The moral training of property, and the work ethic, are important elements in the morality of the free economy. Yet they are far from the most important. Long ago we were told

"Thou shalt love the Lord thy God with all thy heart and with all thy soul and with all thy might and thy neighbor as thyself." Whatever the color of our religious beliefs or of our philosophical convictions, this is a prescription which is likely to command wide assent even though we may not strive very hard to live up to it.

What does loving one's neighbor as oneself mean? It must mean that one wishes him to have what one most prizes for oneself. What do we most wish for ourselves? Is it a full belly, the secure provision of three meals a day? When people refer to compassion for others, they often talk as if this were so. Clearly it is not. A slave may have a full belly. A prisoner may have his regular three meals a day. So too may a soldier, but millions of young men would reject that as a reason for volunteering for the army. Of course, the starving man wants food before all else, and so would we if we were starving. But when we ask ourselves what we want above all else for ourselves, we do not picture ourselves to be starving. Is it then a secure roof over our heads, adequate clothing, or any other material benefits? Again we often talk as if this were the case. Once again, however, we know that these material goods may be available in slavery, in prison, or especially in the armed forces. When we say that we want them, we do so on a basic assumption, namely that we are free to seek them in accordance with our own freely chosen purposes.

This is the key to the commandment to love our neighbor. What we want above all for ourselves, and which therefore we must accord to our neighbor, is freedom to pursue our own purposes. It is only when this is assumed, that we talk about the primacy of food, clothing, shelter, and any other material benefits and enjoyments. As a corollary to this freedom we want others to respect our individuality, our independence, and our status as responsible human beings. We do not want to be treated as children, not to mention slaves, or serfs, or prisoners, or conscripts, however generous or indulgent the treatment may be. This is the fundamental morality of the free economy and its great achievement. It alone among economic systems gives men the respect due to free, independent, responsible persons. All other systems in varying degrees treat men as less than this. Socialist systems above all treat men as pawns to be moved about by the authorities or as children to be given what the rulers decide is good for them, or as slaves to be treated as chattels. For in all other systems the rulers act on the presumption that they know best. Therefore they are morally stunted. Only the free system, the much assailed capitalism, is morally mature.

Yet doubt may linger. Those who have been brought up on the Bible may say that surely one of the first lessons of the Bible is that we are, each one of us, our brother's keeper. They are mistaken, though their mistake has been given currency by many eminent men. When the Lord called upon Cain and said "Where is thy brother?" and Cain excused himself with the famous question "Am I my brother's keeper?" the Lord did not say "Yes, thou art." He simply said "Thy brother's blood cries out to me from the ground." What Cain was doing was what slippery witnesses do every day in courts of law. They are asked a plain but incriminating question, and they answer with another question which is off the point. I am not my brother's keeper. If I were, he would be subordinate to me, as a child is to his parent who truly is his keeper. I cannot love my neighbor as myself if I make him subordinate to me. If I do, I become responsible for him and I deprive him of his self-responsibility. But cannot we be keepers of each other? If this means simply that we should help each other in our need, we certainly can, and we have noted that such help has always been conspicuous in capitalist countries. But for this "keeper" is hardly the right word. When we help each other, our aid must be free from any derogation from self-responsibility. In that case it is consistent only with a system of freedom. Thus we return to the moral maturity and superiority of the capitalist system.

Forward to Capitalism

We have examined socialism and found it to be mainly an expression of atavistic errors and superstitions. We have analyzed economic planning and interventionism and found them to be the agents and begetters of tyranny and poverty. We have looked at labor cartels and monopolies and found them to be parasites on the body of the working class and of the whole society. We have scrutinized the moral foundations of the free economy and found them to be incomparably superior to those of any rival system. Yet with occasional stumbles and retreats the western world has been sliding down the anti-capitalist road for several generations. It has done so under the influence of ideas of truly remarkable shoddiness. As the late Ludwig von Mises said many years ago, the only way to conquer bad ideas is with good ideas. It is to be hoped that some of the ideas propounded here may aid that conquest. As the anti-capitalist slide has taken us far back from levels of civilization established by our forefathers under the influence of capitalism and its associated ideas, our battle cry is clear. It must be "Forward to Capitalism."

4 The Heritage Lectures

Capitalism was the first system in human history in which it was possible to become rich by uplifting the poor. Despite the matchless success of capitalism and the monotonous failure of socialism, we hear the socialist ideology repeatedly proclaimed as the wave of the future. Yet all socialist or anti-capitalist ideologies are comparable to the belief in the flatness of the earth—they are a revival of long-exploded errors that somehow are passed off as plausible. Socialism's persuasive power lies in simple slogans. But slogans cannot save socialism from the inherent inefficiency of systems that govern production and distribution according to "plans" rather than the price-signalling system of free enterprise. Wage-price control, directed regional development, nationalization, excessive regulation, and other kindred forms of central planning all induce distortions that worsen the illness to be cured.

Few institutions in the free world are considered as legitimate as labor unions. Yet the ideological basis of the assumed necessity of unions is more often than not a parody of the relationship between labor and business and a distortion of the relationship between worker and worker. The virtue of capitalism is more than its material success. Rising above the dolorous history of peonage, slavery, serfdom, and feudal distinctions of class, capitalism allows men to respect the individuality and self-responsibility of other men. In this, its moral superiority lies.

The Heritage Foundation
513 C Street, N.E. • Washington, D.C. 20002