

the *Freeman*



the Freeman

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FEE

FROM THE EDITOR

Freedom is personal to me.

Growing up, conversations at the dinner table regularly addressed my father's Polish background—why his parents decided to leave all of their material possessions and cultural comfort behind to move to the United States. I learned from him, at an early age, how life under unlimited government power was constricting, unimaginative, and perilous.

Through these conversations I became interested in Poland, Russia, the Cold War, and political ideologies—evaluating what made them “good” and “bad.” My quest led me to study in St. Petersburg, Russia over a high school summer, and sparked my reading books by Milton Friedman and F.A. Hayek.

I soon discovered a passion for sharing these important lessons with others. After a few years working to make the world freer through public policy, I moved to the organization Leonard Read began in 1946: FEE.

FEE is my intellectual home because of our focus on what makes free societies more creative, more dynamic, more accepting, and entirely more personally fulfilling than those such as communist Poland.

Some of the most impactful writings in my life can be found in the following pages. From Henry Hazlitt's *Economics in One Lesson* that taught me everything has a cost, to Read's “I, Pencil”—which explains the miracle of the simplest everyday object—these ideas will make you begin to recognize just what a truly marvelous world we occupy...and how fragile so much of what we take for granted actually is.

In “Why Socialism Failed” Mark Perry teaches how so many civilizations have sabotaged themselves by ignoring and suppressing the guidance of prices, profit and loss, and private property rights. In “Unicorn Governance,” Michael Munger explains how a government that seeks the disinterested “public good” is as elusive as mythical creatures. In *The Law* by Frédéric Bastiat, we learn how the law can so easily be corrupted to serve unjust purposes. And in “How to Find Joy in An Unfree World,” my colleague Jeffrey Tucker summarizes a wonderful book by Orison Swett Marden that reminds me of one of my favorite quotations by Thomas Jefferson in a letter to his pen-pal John Adams:

“There are indeed...gloomy and hypochondriac minds...always counting that the worst will happen, because it may happen. To these I say How much pain have cost us the evils which have never happened? My temperament is sanguine. I steer my bark with Hope in the head, leaving Fear astern. My hopes indeed sometimes fail; but not oftener than the forebodings of the gloomy.”

It's my hope you will gain as much value out of these words as I have. When you're finished, share this collection with others to become, as Leonard Read recommended, like a candle in the darkness whom people seek for insight on living, as one of my favorite philosophers Robert Nozick called it (echoing Socrates), an “examined life.”

Not only examined, but also happy, prosperous, and free.

— RICHARD N. LORENC

FEE has been a leading non-profit organization in teaching the principles of a free society since its founding in 1946 by Leonard E. Read. FEE produces student seminars, free online courses, classroom resources, and engaging classic and contemporary content available at FEE.org and on social media. FEE is supported solely by contributions from individuals, private foundations, and businesses and by the sale of our publications. We invite you to advance liberty with us at FEE.org.



This issue of the *Freeman* is dedicated to the memory of **Ralph Smeed**, a tireless advocate for and supporter of freedom. Learn more at FEE.org/Ralph-Smeed.

This printing was made possible due to the generosity of The Ralph Smeed Private Memorial Foundation.

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WHAT FREEDOM MEANS, AND WHY FEE SUPPORTS IT

BY LAWRENCE W. REED

In every human endeavor, change in some form is inevitable. When it builds on past progress, advances strategic objectives and incorporates new technologies, it's a very good thing.

Since I became FEE's president in 2008, the organization and its methods have changed so remarkably that it's fair to say we're a totally different institution in every way but one: The timeless principles we seek to share with the world are the same today as they were at our founding seven decades ago.

Our vision—the ideal we are striving to achieve—is a world where people of all faiths and races flourish in a free and civil society. In such a world the individual's creative, productive energies are unleashed; private property and the sanctity of contract are upheld; the use of force is confined to protecting the peace; competitive markets allocate scarce resources; and honesty is universally regarded as the best policy in both public and private affairs.



We believe a free society is not only possible; it is also imperative, because there is no acceptable alternative for a civilized people. Our hope is that through education, men and women will embrace the moral, philosophic, and economic principles that undergird a free society; that they will appreciate the direct connection between those principles and their material and spiritual welfare; that they will strive to pass those principles on from one generation to the next.

The future we envision is one in which individual expression gives rise to great, even presently unimaginable, achievements in culture, medicine, science, and education. Men and women will engage one another peacefully and voluntarily because they will respect one another's uniqueness, rights, property, and aspirations. No one will be so lacking in humility and introspection as to fancy himself better equipped to plan the lives of others than they, individually, are able to plan for themselves, their families, and their businesses.

Our core values begin with the notion that ideas matter. Indeed, ours is a battle of ideas exclusively, not a battle of personalities. Ideas can and do change the world.

We are optimistic. Pessimism is a self-fulfilling prophecy. We are waging a battle of ideas to win, not to simply make a living, bide our time, or go down with the ship with a smile on our faces.

Politics is not our bailiwick. Indeed, we seek to de-politicize life. We want to enlighten public discussion by emphasizing that there is (and ought to be) much more to life than the political apparatus. We do not pretend to be experts on how politicians should employ the use of force. Rather, we make the case against the initiation of force in the first place, period.

A free economy in the long run is unlikely if not impossible without the widespread practice of sturdy character—including such traits as honesty, intellectual humility, self-discipline, responsibility, patience, and respect for the lives, property and rights of others. We note that in history, no society that lost its good character ever kept its precious liberties.

We believe that in material terms, free people are not equal and equal people are not free. Attempts through the use of government to create equality of income and wealth not only work against our natures as unique individuals, but also lead inevitably to force and conflict. A successful society is not synonymous with envy or legal plunder.

Pioneering inventors, risk-taking wealth creators, and visionary organizers of people and tools are among society's greatest heroes. Those whose business is the forcible redistribution of those heroes' achievements are engaged in immoral, envious, demagogic, or otherwise antisocial behavior.

Private property is a human right first and foremost. Its protection is an indispensable foundation of economic activity in a free society. One should earn it through merit and voluntary exchange, not through political connections and cronyism.

Central planning of society by those with political power is, as economist Ludwig von Mises expressed it, "planned chaos." The spontaneous order of free markets,

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competition, incentive, entrepreneurship, profit and loss, and flexible prices is infinitely superior in both moral and economic terms.

Government has nothing to give anybody except what it first takes from somebody, and a government that's big enough to give us everything we want is big enough to take away everything we've got. When we vote for a living instead of working and freely trading for one, we empower politicians to enslave us.

Nothing about liberty guarantees its future. It is not in any way automatic. It can be lost just as surely and fully by our own choices and votes as it can be taken by a foreign invader. Those who believe in it can take nothing for granted. We must work hard to foster widespread understanding of it or lose it to those who value money and power more.

FEE'S VOICE

Within a broadly “pro-liberty” framework, FEE is a “big tent” organization, meaning we encourage dialogue among friends of liberty who may differ with one another on such matters as the precise bounds of government or specific policy issues that are beyond FEE's economic and philosophic focus. We seek to *build* bridges, not burn them.

The economic theories of the Austrian school figure prominently in FEE's approach, but we welcome the contributions of other schools of thought broadly sympathetic to freedom and free markets. We seek truth, not conformity. We pledge allegiance not to the views of a single person but to what we believe reason, logic and evidence inform us to be right.

We are not religiously affiliated, but that does not mean we are unfriendly to people of faith. To paraphrase

the title of a book by FEE's late scholar Edmund Opitz, faith and a free economy can be “allies, not enemies.”

FEE seeks no resources or special favors from any political authority. We rely entirely on the voluntary support of those who share our perspective and support our mission. We treat the funds our supporters have entrusted to us as if we had earned them ourselves in the first place. We are “entitled” to nothing but the respect and support our work merits in the eyes and hearts of free men and women.

FEE thinks of itself not as a place the world must come to, but as an organization that takes its message to the world. Our seminars are not held in one place but in many. The website reaches millions around the world, with all content available for free. We are forging strategic partnerships with others who love liberty so that we may reach new audiences, especially the young, wherever eager ears desire to hear.

And in all matters we aim for the highest standards of ethical speech and conduct, sound internal management, continuous quality improvement, and customer service. We will never believe we're so good at something that we can't get better. And if getting better means saying goodbye to old and less effective ways of doing things, we'll do it in a heartbeat.

So there you have it. This is what we believe at FEE. Where once we said these things in print to as many as 50,000 people per year, we now say them in digital form to millions. We think that's progress. ■

Lawrence W. Reed is the President of the Foundation for Economic Education. Read more at FEE.org/Reed



UNICORN GOVERNANCE

BY MICHAEL MUNGER

Our problem is that we have to fight unicorns. Unicorns, of course, are fabulous horse-like creatures with a large spiraling horn on their forehead. They eat rainbows, but can go without eating for years if necessary. They can carry enormous amounts of cargo without tiring. And their flatulence smells like pure, fresh strawberries, which makes riding behind them in a wagon a pleasure.

For all these reasons, unicorns are essentially the ideal pack animal, the key to improving human society and sharing prosperity.

Now, you want to object that there is a flaw in the above argument, because unicorns do not actually exist. This would clearly be a fatal flaw for the claim that unicorns are useful, if it were true. Is it?

Of course not. The existence of unicorns is easily proven. Close your eyes. Now envision a unicorn. The one I see is white, with an orange-colored horn. The unicorn is surrounded by rainbows. Your vision may look slightly different, but there is no question that when I say "unicorn," the picture in your mind corresponds fairly closely to the picture in my mind. So, unicorns do exist and we have a shared conception of what they are.

PROBLEM: "THE STATE" IS A UNICORN

When I am discussing the State with my colleagues at Duke, it's not long before I realize that, for them, almost without exception, the State is a unicorn. I come from the Public Choice tradition, which tends to emphasize consequentialist arguments more than natural rights,

and so the distinction is particularly important for me. My friends generally dislike politicians, find democracy messy and distasteful, and object to the brutality and coercive excesses of foreign wars, the war on drugs, and the spying of the NSA.

But their solution is, without exception, to expand the power of "the State." That seems literally insane to me—a non sequitur of such monstrous proportions that I had trouble taking it seriously.



Then I realized that they want a kind of unicorn, a State that has the properties, motivations, knowledge, and abilities that they can imagine for it. When I finally realized that we were talking past each other, I felt kind of dumb. Because essentially this very realization—that people who favor expansion of government imagine a State different from the one possible in the physical world—has been a core part of the argument made by classical liberals for at least 300 years.

Some examples help illustrate the point.

Edmund Burke highlights the unicorn fallacy neatly. The problem is not bad people, or systems that need reform. Come the next election, we'll have a Messiah! The next reform will lead to Utopia! No. No, we won't, and no, it won't.

In vain you tell me that [government] is good, but that I fall out only with the Abuse. The Thing! The Thing itself is the abuse! Observe, my Lord, I pray you, that grand Error upon which all artificial legislative Power is founded. It was observed, that Men had ungovernable Passions, which made it necessary to guard against the Violence they might offer to each other. They appointed Governors over them for this Reason; but a worse and more perplexing Difficulty arises, how to be defended against the Governors?

Adam Smith put it this way in *The Wealth of Nations*:

It is the system of government, the situation in which [people] are placed, that I mean to censure, not the character of those who have acted in it. They acted as their situation naturally directed, and they who have clamoured the loudest against them would probably not have acted better themselves.

Smith was talking about the employees of the East India Company in this passage. But the insight is a general one: The failure of a system of organization often arises from the incentives, the logic of action, or the inconsistencies inherent in that system. The people who work in that system probably act in much the same way that other people would act if they found themselves in that system. So, while it's true that one can imagine a State that works differently, there are no actual human beings who can work in that system and deliver

what statisticians can imagine.

More recently, Ludwig von Mises and F. A. Hayek recognized the problem of unicorns rather deftly. In *Epistemological Problems of Economics*, Mises said:

Scarcely anyone interests himself in social problems without being led to do so by the desire to see reforms enacted. In almost all cases, before anyone begins to study the science, he has already decided on definite reforms that he wants to put through. Only a few have the strength to accept the knowledge that these reforms are impracticable and to draw all the inferences from it. Most men endure the sacrifice of the intellect more easily than the sacrifice of their daydreams. They cannot bear that their utopias should run aground on the unalterable necessities of human existence. What they yearn for is another reality different from the one

given in this world ... They wish to be free of a universe of whose order they do not approve.

Perhaps the most famous, and devastating, version of "skewer the unicorn" is Hayek's, when he said in *The Fatal Conceit* that "the curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."

THE MUNGER TEST

In debates, I have found that it is useful to describe this problem as the "unicorn problem," precisely because it exposes a fatal weakness in the argument for statism. If you want to advocate the use of unicorns as motors for public transit, it is important that unicorns actually exist, rather than only existing in your imagination. People immediately understand why relying on imaginary creatures would be a problem in practical mass transit.

But they may not immediately see why "the State" that they can imagine is a unicorn. So, to help them, I propose what I (immodestly) call "the Munger test."

1. Go ahead, make your argument for what you want the State to do, and what you want the State to be in charge of.
2. Then, go back and look at your statement. Everywhere you said "the State," delete that phrase and replace it with "politicians I actually know, running in electoral systems with voters and interest groups that actually exist."
3. If you still believe your statement, then we have something to talk about.

This leads to loads of fun, believe me. When someone says, "The State should be in charge of hundreds of thousands of heavily armed troops, with the authority to use that coercive power," ask them to take out the unicorn ("the State") and replace it with "George W. Bush." How do you like it now?

If someone says, "The State should be able to choose subsidies and taxes to change the incentives people face

in deciding what energy sources to use," ask them to remove "the State" and replace it with "senators from states that rely on coal, oil, or corn ethanol for income." Still sound like a good idea?

How about, "The State should make rules for regulating sales of high performance electric cars." Now, the switch: "Representatives from Michigan and other states that produce parts for internal combustion engines should be in charge of regulating Tesla Motors." Gosh, maybe not ...

In my experience, we spend too much time fighting with our opponents about their unicorns. That is, we claim that the unicorn/State itself is evil, and cannot be tamed in a way that's consistent with liberty. The very mental existence of the unicorn is the target of our arguments.

The problem, of course, is that the unicorn they imagine is wise, benevolent, and omnipotent. To tell them that their imaginations are wrong is useless. So long as we insist that our opponents are mistaken about the properties of "the State"—which doesn't exist in the first place, at least not

in the way that statist imagine—then we will lose the attention of many sympathetic people who are primarily interested in consequences.

To paraphrase Hayek, then, the curious task of the liberty movement is to persuade citizens that our opponents are the idealistic ones, because they believe in unicorns. They understand very little about the State that they imagine they can design. ■

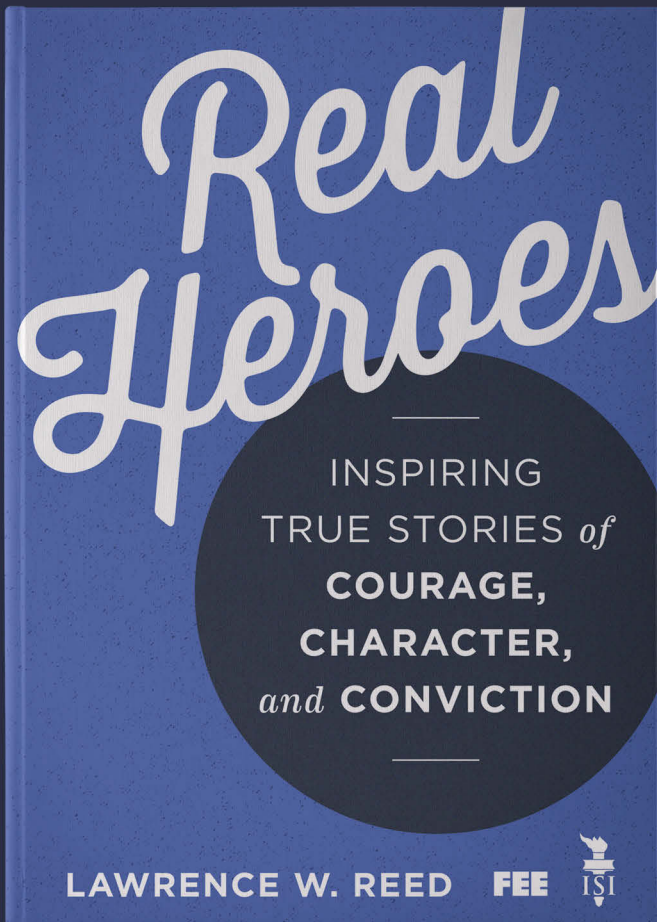
"Unicorn Governance." Michael Munger. Foundation for Economic Education, August 11th, 2014.

Michael Munger is Director of the Philosophy, Politics, and Economics program at Duke University and a member of the FEE Faculty Network. Read more at FEE.org/Munger.

THE PROBLEM,
OF COURSE,
IS THAT THE
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AND OMNIPOTENT.

“The truest hero does not think of himself as one, never advertises himself as such, and does not perform the acts that make him a hero for either fame or fortune.”

—From *Real Heroes* by Lawrence W. Reed



Greatness doesn't come from getting your name in the news, piling up degrees, or landing one powerful position after another.

No, greatness springs from character, the critical self-determined element that defines a person.

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“We learn by stories, and this powerful, well-written book gives us forty superb ones. They couldn't be more timely in an age that is experiencing too much bluster, blather, exhibitionism, and ignorance. Real Heroes will inspire us all to nurture the better angels of our nature.”

—STEVE FORBES, chairman and editor in chief at Forbes Media



READ ME FIRST

BY STEVEN HORWITZ

Nothing stirs up controversy in the digital age quite like a list. But lists, especially ones that provide an easily accessible way to learn essential information, have their purposes. Below, I offer 12 articles that I think every aspiring economist should read. Before we get to the list, let me say a few things about how I created it.

Markets are communication systems, without which we would not have advanced production and the wealth it brings.

First, my imagined audience is an undergraduate who intends to enter a PhD program in economics, although the list could be interesting and useful for other people with other goals. Second, this list most certainly reflects my own interests and training. It is a list very much in what Peter Boettke would call the “mainline” of economic thinking, which sees markets as effective coordinating processes and is skeptical of what government can do to improve on them. Third, this list is most

emphatically not “the” 12 articles people should read. I can think of another dozen important reads that I left off this list. So I am certainly not making a definitive statement of the 12 best, or only, articles one should read. These are simply 12 that I think are important to read to understand sound economics, ideally before one heads off to grad school in economics.

With that said, here’s my list, organized by subtopic and then chronologically.

POLITICAL ECONOMY

1. Ludwig von Mises, “Economic Calculation in the Socialist Commonwealth” (1920)

This is the article that began the 20th-century debate over the possibility of rational economic calculation under socialism. It remains the definitive statement of the absolute necessity of private property, markets, and money prices in order for people to have a clue about what to produce and how to produce it.

2. F.A. Hayek, "The Use of Knowledge in Society" (1945)

Written at the end of the calculation debate, Hayek's very famous essay explores how markets and the price system enable us to use the decentralized and partial knowledge of others. The lesson is that markets are communication systems, without which we would not have advanced production and the wealth it brings.

3. Gordon Tullock, "The Welfare Costs of Tariffs, Monopoly, and Theft" (1967)

Although this article did not coin the term "rent-seeking," it is the paper that laid the theoretical foundation for the idea that the costs of government intervention are not just the direct losses of efficiency of, say, monopolies, but also resources expended by the citizenry to obtain that privilege, or to protect themselves from the coercion or intervention of others.

MICROECONOMICS

4-5. Ronald H. Coase, "The Nature of the Firm" (1937) and "The Problem of Social Cost" (1960)

It should tell you something that Coase is the only economist with two articles on this list and they are both among the most cited articles in the social sciences, as they more or less created multiple sub-disciplines in

economics. The 1937 article offers an explanation for why markets, in the sense of exchange and prices, aren't always the best way to generate coordination and thereby provides a rationale for why firms, in the sense of hierarchical resource allocation, exist. Firms are sometimes lower-cost ways to organize production rather than specific contracts. This concept is what we call transaction costs, and Coase's article has influenced almost everything in industrial organization since. The 1960 article gave us the much misunderstood Coase Theorem and is Coase's explanation of how apparent externality problems can be dealt with by markets, both when transactions costs are low (as in many theoretical models) and when they are not (as is often the case in the real world). It is a must-read for any discussion of externalities and property rights.

6. Armen Alchian, "Uncertainty, Evolution, and Economic Theory" (1950)

In the long run, inflation cannot reduce unemployment. As more evolutionary approaches and other criticisms of the fixation on equilibrium in modern economics have become more frequent in recent years, this article has received more attention. Alchian explores how markets are learning processes by which profit-seeking firms



engage in adaptive and imitative behavior in search of those profits. This model contrasts with the unrealistic, static models of much of microeconomics.

7. Harold Demsetz, "Toward a Theory of Property Rights" (1967)

This paper is one of the most important in understanding the origins, functions, and evolution of property rights. Demsetz focuses on how property rights define domains of action and responsibility and thereby enable us to internalize externalities. Going beyond Coase, Demsetz also explores the idea of property rights as bundles of particular rights and how those bundles vary by context.

MACROECONOMICS

8. Leland B. Yeager, "Essential Properties of the Medium of Exchange" (1968)

Perhaps the least well-known of these 12 articles, Yeager's paper gets at the fundamental properties of money, especially the idea that we can find ourselves holding too little or too much money in comparison to our desired holdings. We accept money "routinely," which differentiates it from other goods. The features of money he describes explain why systematic macroeconomic disorder, such as recessions or the boom-bust cycle, must ultimately have origins in mismanaged money.

9. Milton Friedman, "The Role of Monetary Policy" (1968)

If Friedman's book with Anna Schwartz on the monetary history of the United States was a huge empirical nail in the coffin of old-line Keynesianism, this presidential address to the American Economic Association was its theoretical counterpart. Friedman argued that, when a central bank attempts to reduce unemployment through the Phillips Curve trade-off, people will not simply do nothing: instead, they will adapt over time by shifting their expectations (with a lag) of inflation, thereby neutralizing, completely in the long run, the Fed's attempts to reduce unemployment. In other words, in the long run, inflation cannot reduce unemployment.

10. Robert Lucas, "Econometric Policy Evaluation: A Critique" (1976)

Lucas took Friedman's argument and went the next step by arguing that, in general, the public's expectations were not independent of monetary policy. When we model the effects of macroeconomic policy, we should assume that the public knows what those policies and their effects are, and those expectations must be incorporated in the model. The result was what is now known as

the rational expectations model, in which there is no systematic tradeoff between inflation and unemployment even in the short run.

METHODOLOGY

11. James Buchanan, "What Should Economists Do?" (1962)

In his presidential address to the Southern Economic Association, Buchanan argues that economics has gone down the wrong path by focusing on questions of "allocation." He makes the case for the study of economics being about "catallactics," or the science of exchange and the institutional arrangements under which exchange takes place. Those institutions will determine how beneficial those consequences are. This paper pairs nicely with Tullock's rent-seeking paper and with all of Hayek's various papers on knowledge, including "The Use of Knowledge in Society," to lay out a framework for the methods of comparative political economy.

12. D.N. McCloskey, "The Rhetoric of Economics" (1985)

I can think of another dozen important reads that I left off this list.

This paper, and the follow-up book of the same title, reminds us that economists don't always follow their own official methodologies — and that this is a good thing. McCloskey argues that the best work in economics succeeded because it persuaded other economists with the good use of various rhetorical techniques. Economists would be better if we acknowledged this as part of our science and thereby paid more careful attention to using such techniques well.

So there's a place to start your serious economics education. I'm sure that the comments on the FEE website and on FEE's Facebook page and other social media will suggest dozens of other excellent pieces. And I'm sure I'll agree with most of those suggestions. So make yourself a big, long reading list and get reading! ■

"12 Articles Every Aspiring Economist Should Read." Steven Horwitz. The Foundation for Economic Education. May 26th, 2016.

Steven Horwitz is Charles A. Dana Professor of Economics at St. Lawrence University and the author of Hayek's Modern Family: Classical Liberalism and the Evolution of Social Institutions. He is also distinguished fellow at FEE. Read more at FEE.org/Horwitz.

A photograph of a young man with dark hair and a beard, smiling broadly. He is wearing a yellow and black checkered shirt under a dark jacket. He is surrounded by other people, some of whom are out of focus in the foreground and background, suggesting a social gathering or crowd.

HOW TO FIND JOY IN AN UNFREE WORLD

BY JEFFREY A. TUCKER

“What are you complaining about all the time?” people sometimes ask me. “I’m just about as free as I want to be.”

Here’s the problem. How can we really know what we’re missing if we’ve never had it before? The less free we are, the less we know what freedom feels like and how it shapes who we are. The more dependent on government we become, the less we crave independence. This is why it is important to find literature that takes us out of our present moment and introduces us to different ways of thinking.

We have to imagine a different ideal.


This is why I’m nuts for a book that came out right at the end of the Gilded Age, and just before we got the permanent income tax and the Fed, as well as World War I. It is the last look at the mindset of what should be called the real “greatest generation.”

A NEGLECTED JOURNALIST

The author of *The Joys of Living* is Orison Swett Marden (1850-1924). I first bumped into his writing when researching the entrepreneurs of the Gilded Age. He turns out to be the great psychologist and sociologist of the generation that built the modern age in America. He was a physician, a hotel owner, and a fantastic thinker and writer. He was the editor of *Success* magazine, a hugely influential publication during the age when Americans adored their inventors and entrepreneurs.

It’s a world and a time I admire because it was built by the unleashing of the capitalist spirit in the second half of the 19th century. It was the height of the age of *laissez faire*. Slavery was gone. Women gained authentic rights. Upward social mobility was a common expectation. Lives lengthened. Infant mortality fell dramatically.

In one generation, creative and motivated people



*The greatest conqueror
of age is a cheerful,
hopeful, loving spirit.*

could move from poor immigrant to wealthy benefactor of museums. The rich of yesterday became the middle class of today, even as tomorrow would mint the newly rich, and the process continued without end, each advance touching everyone throughout society.

There were new products, new services, and new forms of communication and transportation, and each seemed to point to a future of peace and prosperity. Such inventions were celebrated in great public spectacles called World's Fairs.

It was a time when incomes were not taxed -- a major factor in why it could be accumulated to become powerful investment capital. Most schooling was private or community based. There was no professional licensure. There were no passports. There was not a single regulatory bureaucracy in Washington. There was no welfare state. No one had yet experienced a world war.

THE UNLEASHING OF THE MIND

Orison Swett Marden was the public intellectual who made sense of it all. He was a serious journalist, a great thinker, and a wonderful writer. His outlook embodies the ebullient optimism of the Gilded Age. He studied the phenomenon of progress and tried to discern its causes. He located them in the hearts and minds of the men and women who made the difference. He devoted his life to chronicling their lives and the lives of those they touched with their creativity and generosity.

"The greatest conqueror of age is a cheerful, hopeful, loving spirit." The point was not to celebrate privilege, but rather to see the possibilities available to every person. Marden himself was like many of the first-generation rich of this period. He came from poverty. He faced family hardship. He worked his way out of difficulty to find

promise and reward. He saw how the sacrifices made in youth turn to a bounty in middle age. There was cause and effect that operated in the universe. Hard work, dedication, determination, and dreams could remake one's world and the whole world.

The greatest discovery of the time was not a technology, but a philosophy. It was the philosophy that the individual human mind was the most productive resource on the planet, more powerful than all the natural resources or man-made machinery. It was the human mind that was the real source of progress and prosperity.

Previous generations believed they were trapped by fate, by class, by social position, or by forces more powerful than they. This generation saw the truth that nothing could contain an idea whose time had come, so long as there were great men and women around who believed in it and acted upon it. This is why so many notable men of his time cited Marden as their inspiration: Henry Ford, Thomas Edison, Harvey Firestone and J.P. Morgan.

A GUIDE TO LIFE

Marden's recipe is made of three parts: seeing, emulating, and acting. To his mind, there are no circumstances that we face that would make doing this impossible. The source of joy is around us, but we have to seek it, see it, embrace it, and expand upon it.

As for daily discouragements and obstacles, they are unavoidable features of life. They exist in all times and places. You can never get rid of the enemies of your personal progress but you can make the most of things as they are. In the course of this, we all make blunders, mistakes, and have plenty of reason to criticize ourselves. But this is the most unproductive activity. You can't accomplish anything for the future if your gaze is always in the past.

Marden writes: "Nothing is more foolish, nothing more wicked, than to drag the skeletons of the past, the hideous images, the foolish deeds, the unfortunate experiences of yesterday into today's work to mar and spoil it."

The right attitude of the entrepreneur is to think of the past as dead and tomorrow as not yet born. The only time that really belongs to us is the here and now, the passing moment. If we dedicate ourselves to make the best out of the present, one decision and action at a time, we can make a great future for ourselves. The art of living is the art of living in the today.

DESIGNED TO INSPIRE

It is unapologetically designed to inspire, and it does this as few books I've ever read. It really amounts to spelling out a life philosophy, one that is deeply practical and actionable in every way, every day. Indeed, this

Do not flatter yourself that you can be really happy unless you are useful. Happiness and usefulness were born twins. To separate them is fatal.

might be the most inspiring book you will ever read — not because it solves all mysteries concerning who we are, how we got here, or what we should seek as the very purpose of life.

He stays away from these larger questions, because it's the smaller questions that are more interesting and effective. What he deals with more directly concerns what we might call a more mundane aspect of philosophy: how we should approach each day in order to get the most out of life.

As such, this is a philosophy of how to live an excellent life, no matter what our calling is. Capitalist, monk, mother, teacher, worker, banker, mechanic, musician, preacher, writer — whatever we do can be done with a sense of joy, a spirit of awe, and an ambition to drive forward the engines of progress.

In some ways, this book is a relic in the best sense of that term. I don't even believe it could be written today. We lack the social template that could produce such a work. The spirit is not in the air that could allow us to extract such thoughts. People today are too vexed, too burdened, too distracted to see these things. But Marden did see them. And just because we are too often blind to the reality that he illuminates in these pages doesn't mean that it is not our reality too.

Note that nowhere does he talk of storming Washington, agitating for our rulers to overthrow themselves or sending institutions into upheaval, much less agitating for societal transformation and uplift. He speaks only to the individual. He tells you what you can do in your time, right where you are, to bring happiness to your life. Social and political change is an effect. It comes only after we change ourselves.

His values: work, creativity, seeking out joy, feeling happiness, letting go of the past, living in the present, never regretting mistakes, never feeling fear, always being loyal, spreading good cheer, looking past obstacles, being kind to others, staying out of debt, keep life balanced between the need for money and the need for

beauty, and never losing one's ideals. This is the essence of the Marden world view.

FREEDOM AND THE MIND

"No one can be really happy or successful unless he is master of his moods." It's the perfect time to draw attention to this work more than one hundred years after its publication. It's amazing to me that it had ever been lost. I'm sure that it will make a difference in your life. You might use its wisdom to make a difference in the world around you. Indeed, this is an example of the kind of book that could completely change the world. Why? Because Marden understands freedom and the individual mind, and their power, once combined, to make a gigantic difference now and in the future.

My whole experience suggests that personal inspiration is the ingredient lacking in the current generation of people who have come to love liberty. They have access to texts, knowledge, and theory as never before in human history. What they lack is a method for using what they know and the personal drive to do so.

People are too quick to blame outside forces for failure without realizing that outside forces conspiring against progress are part of the structure of all environments in all times and places. This book provides that missing element, that key to brush away despair and unlock the inner drive to make a difference.

Prepare to use your highlighter tool. It will be used as never before. Then join me in finding the joys of life and working to make life more joyful for others. ■

"How to Find Joy in an Unfree World." Jeffrey A. Tucker. The Foundation for Economic Education. May 10th, 2016.

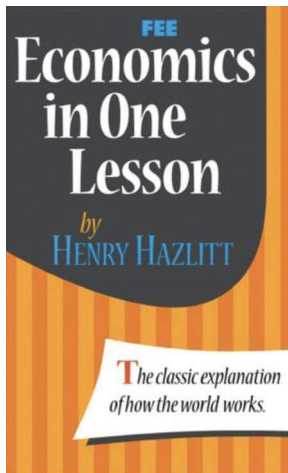
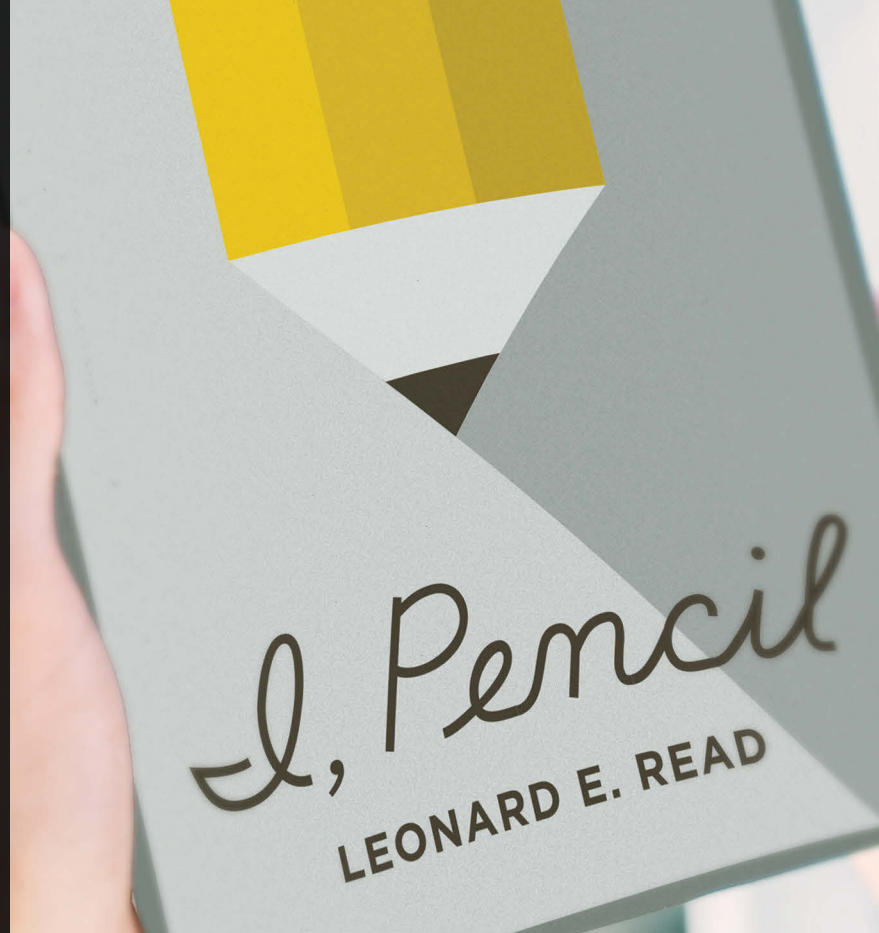
Jeffrey A. Tucker is Director of Content at the Foundation for Economic Education. Read more at FEE.org/Tucker.

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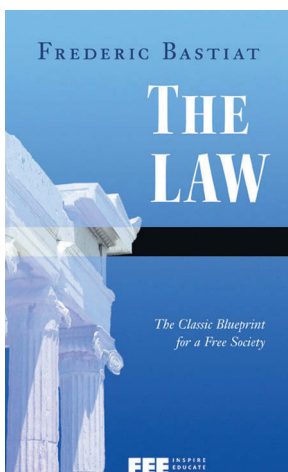
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the Freeman
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Declaration of the thirteen united States of America

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KEY

- 01 - **Ludwig von Mises** - renowned economist and author of *Human Action*
- 02 - **Leonard E. Read** - FEE founder and author of "I, Pencil"
- 03 - **Henry Hazlitt** - economic journalist and author of *Economics in One Lesson*
- 04 - **Albert J. Nock** - journalist, political theorist and author of *Our Enemy, the State*
- 05 - **Richard Ebeling** - economics professor and former president of FEE
- 06 - **William F. Buckley, Jr.** - journalist, commentator and founder of the *National Review*
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- 33 - **Frédéric Bastiat** - French statesman, economist and author of *The Law*
- 34 - **Cicero** - statesman, philosopher and prolific defender of the Roman republic
- 35 - **Murray Rothbard** - Austrian school economist and author of *Man, Economy and State*
- 36 - **Thomas Jefferson** - primary author of *The Declaration of Independence*
- 37 - **Milton Friedman** - Nobel laureate economist and author of *Free to Choose*
- 38 - **John Locke** - political philosopher and key Enlightenment figure
- 39 - **Adam Smith** - Scottish economist and author of *The Wealth of Nations*
- 40 - **Frederick Douglass** - abolitionist and orator
- 41 - **Ayn Rand** - philosopher and author of *Atlas Shrugged*



01

"THE LESSON" FROM ECONOMICS IN ONE LESSON

By Henry Hazlitt

01 **E**conomics is haunted by more fallacies than any other study known to man. This is no accident. The inherent difficulties of the subject would be great enough in any case, but they are multiplied a thousandfold by a factor that is insignificant in, say, physics, mathematics or medicine—the special pleading of selfish interests. While every group has certain economic interests identical with those of all groups, every group has also, as we shall see, interests antagonistic to those of all other groups. While certain public policies would in the long run benefit everybody, other policies would benefit one group only at the expense of all other groups. The group that would benefit by such policies, having such a direct interest in them, will argue for them plausibly and persistently. It will hire the best

buyable minds to devote their whole time to presenting its case. And it will finally either convince the general public that its case is sound, or so befuddle it that clear thinking on the subject becomes next to impossible.

In addition to these endless pleadings of self-interest, there is a second main factor that spawns new economic fallacies every day. This is the persistent tendency of men to see only the immediate effects of a given policy, or its effects only on a special group, and to neglect to inquire what the long-run effects of that policy will be not only on that special group but on all groups. It is the fallacy of overlooking secondary consequences.

In this lies almost the whole difference between good economics and bad. The bad economist sees only what immediately strikes the eye; the good economist also



looks beyond. The bad economist sees only the direct consequences of a proposed course; the good economist looks also at the longer and indirect consequences. The bad economist sees only what the effect of a given policy has been or will be on one particular group; the good economist inquires also what the effect of the policy will be on all groups.

The distinction may seem obvious. The precaution of looking for all the consequences of a given policy to everyone may seem elementary. Doesn't everybody know, in his personal life, that there are all sorts of indulgences delightful at the moment but disastrous in the end? Doesn't every little boy know that if he eats enough candy he will get sick? Doesn't the fellow who gets drunk know that he will wake up next morning with a ghastly stomach and a horrible head? Doesn't the dipsomaniac know that he is ruining his liver and shortening his life? Doesn't the Don Juan know that he is letting himself in for every sort of risk, from blackmail to disease? Finally, to bring it to the economic though still personal realm, do not the idler and the spendthrift know, even in the midst of their glorious fling, that they are heading for a future of debt and poverty?

Yet when we enter the field of public economics, these elementary truths are ignored. There are men regarded today as brilliant economists, who deprecate saving and recommend squandering on a national scale as the way of economic salvation; and when anyone points to what the consequences of these policies will be in the long

run, they reply flippantly, as might the prodigal son of a warning father: "In the long run we are all dead." And such shallow wisecracks pass as devastating epigrams and the ripest wisdom.

But the tragedy is that, on the contrary, we are already suffering the long-run consequences of the policies of the remote or recent past. Today is already the tomorrow which the bad economist yesterday urged us to ignore. The long-run consequences of some economic policies may become evident in a few months. Others may not become evident for several years. Still others may not become evident for decades. But in every case those long-run consequences are contained in the policy as surely as the hen was in the egg, the flower in the seed.

From this aspect, therefore, the whole of economics can be reduced to a single lesson, and that lesson can be reduced to a single sentence. The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.

② Nine-tenths of the economic fallacies that are working such dreadful harm in the world today are the result of ignoring this lesson. Those fallacies all stem from one of two central fallacies, or both: that of looking only at the immediate consequences of an act or proposal, and that of looking at the consequences only for a particular group to the neglect of other groups.

In this lies almost the whole difference

between good economics and bad.

The bad economist sees only what

immediately strikes the eye;

the good economist also looks beyond.

It is true, of course, that the opposite error is possible. In considering a policy we ought not to concentrate only on its long-run results to the community as a whole. This is the error often made by the classical economists. It resulted in a certain callousness toward the fate of groups that were immediately hurt by policies or developments which proved to be beneficial on net balance and in the long run.

But comparatively few people today make this error; and those few consist mainly of professional economists. The most frequent fallacy by far today, the fallacy that emerges again and again in nearly every conversation that touches on economic affairs, the error of a thousand political speeches, the central sophism of the “new” economics, is to concentrate on the short-run effects of policies on special groups and to ignore or belittle the long-run effects on the community as a whole. The “new” economists flatter themselves that this is a great, almost a revolutionary advance over the methods of the “classical” or “orthodox” economists, because the former take into consideration short-run effects which the latter often ignored. But in themselves ignoring or slighting the long run effects, they are making the far more serious error. They overlook the woods in their precise and minute examination of particular trees. Their methods and conclusions are often profoundly reactionary. They are sometimes surprised to find themselves in accord with seventeenth-century mercantilism. They fall, in fact, into

all the ancient errors (or would, if they were not so inconsistent) that the classical economists, we had hoped, had once for all got rid of.

03 It is often sadly remarked that the bad economists present their errors to the public better than the good economists present their truths. It is often complained that demagogues can be more plausible in putting forward economic nonsense from the platform than the honest men who try to show what is wrong with it. But the basic reason for this ought not to be mysterious. The reason is that the demagogues and bad economists are presenting half-truths. They are speaking only of the immediate effect of a proposed policy or its effect upon a single group. As far as they go they may often be right. In these cases the answer consists in showing that the proposed policy would also have longer and less desirable effects, or that it could benefit one group only at the expense of all other groups. The answer consists in supplementing and correcting the half-truth with the other half. But to consider all the chief effects of a proposed course on everybody often requires a long, complicated, and dull chain of reasoning. Most of the audience finds this chain of reasoning difficult to follow and soon becomes bored and inattentive. The bad economists rationalize this intellectual debility and laziness by assuring the audience that it need not even attempt to follow the reasoning or judge it on its merits because it is only “classicism” or “laissez faire” or “capitalist apologetics” or whatever other term of abuse may happen to strike them as effective.

We have stated the nature of the lesson, and of the fallacies that stand in its way, in abstract terms. But the lesson will not be driven home, and the fallacies will continue to go unrecognized, unless both are illustrated by examples. Through these examples we can move from the most elementary problems in economics to the most complex and difficult. Through them we can learn to detect and avoid first the crudest and most palpable fallacies and finally some of the most sophisticated and elusive. To that task we shall now proceed. ■

“The Lesson.” *Economics in One Lesson*. Henry Hazlitt. Atlanta, GA: Foundation for Economic Education, 2015. pp 3-7.

Henry Hazlitt was the founding vice-president of FEE and held editorial positions for the *Freeman* magazine. Read more at FEE.org/Hazlitt.

02

I, PENCIL

By Leonard E. Read

I am a lead pencil—the ordinary wooden pencil familiar to all boys and girls and adults who can read and write.

Writing is both my vocation and my avocation; that's all I do.

You may wonder why I should write a genealogy. Well, to begin with, my story is interesting. And, next, I am a mystery—more so than a tree or a sunset or even a flash of lightning. But, sadly, I am taken for granted by those who use me, as if I were a mere incident and without background. This supercilious attitude relegates me to the level of the commonplace. This is a species of the grievous error in which mankind cannot too long persist without peril. For, the wise G. K. Chesterton observed, “We are perishing for want of wonder, not for want of wonders.”

I, Pencil, simple though I appear to be, merit your wonder and awe, a claim I shall attempt to prove. In fact, if you can understand me—no, that's too much to ask

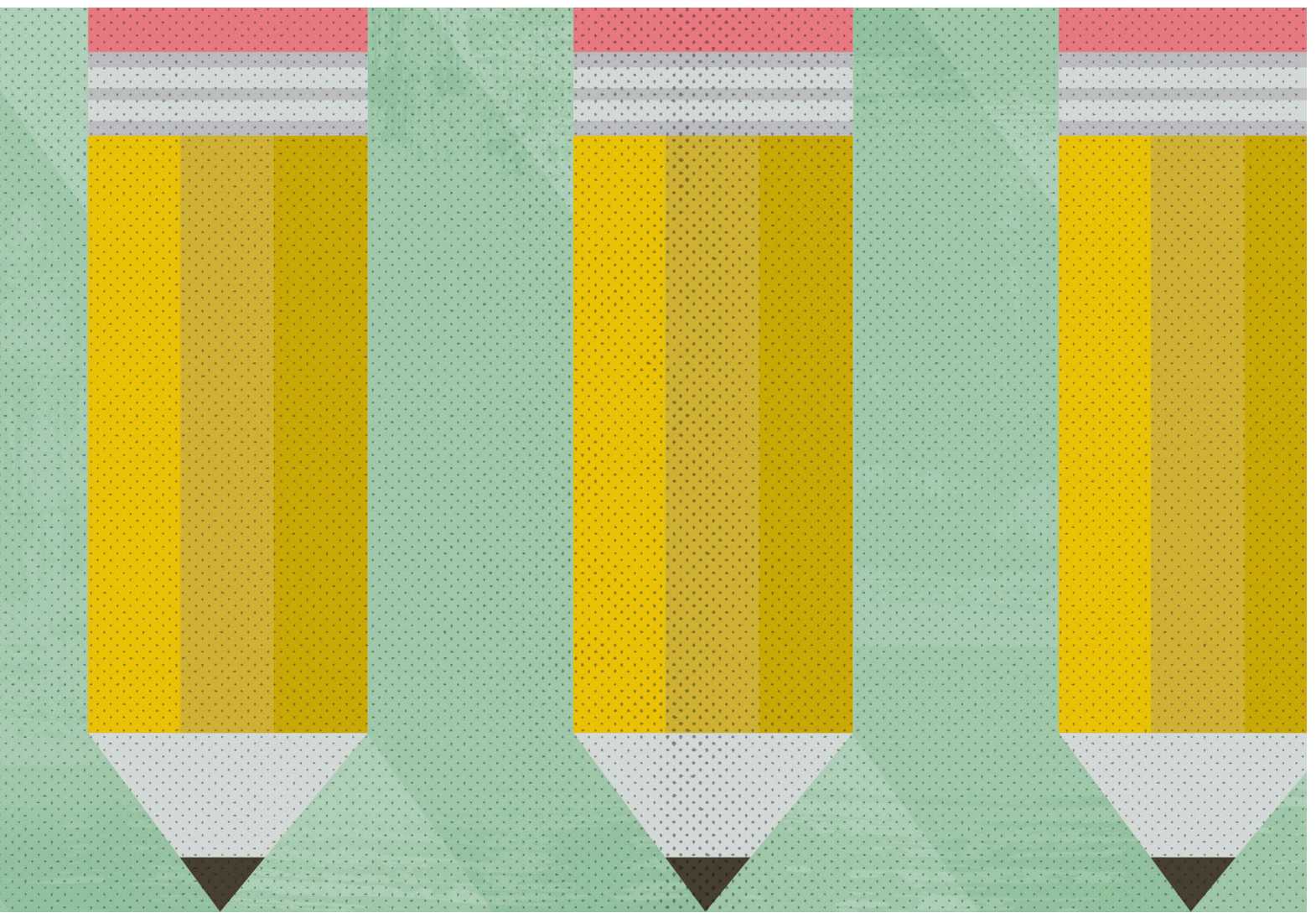
of anyone—if you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing. I have a profound lesson to teach. And I can teach this lesson better than can an automobile or an airplane or a mechanical dishwasher because—well, because I am seemingly so simple.

Simple? Yet, not a single person on the face of this earth knows how to make me. This sounds fantastic, doesn't it? Especially when it is realized that there are about one and one-half billion of my kind produced in the U.S.A. each year.

Pick me up and look me over. What do you see? Not much meets the eye—there's some wood, lacquer, the printed labeling, graphite lead, a bit of metal, and an eraser.

INNUMERABLE ANTECEDENTS

Just as you cannot trace your family tree back very far, so is it impossible for me to name and explain all my antecedents. But I would like to suggest enough of them



to impress upon you the richness and complexity of my background.

My family tree begins with what in fact is a tree, a cedar of straight grain that grows in Northern California and Oregon. Now contemplate all the saws and trucks and rope and the countless other gear used in harvesting and carting the cedar logs to the railroad siding. Think of all the persons and the numberless skills that went into their fabrication: the mining of ore, the making of steel and its refinement into saws, axes, motors; the growing of hemp and bringing it through all the stages to heavy and strong rope; the logging camps with their beds and mess halls, the cookery and the raising of all the foods. Why, untold thousands of persons had a hand in every cup of coffee the loggers drink!

The logs are shipped to a mill in San Leandro, California. Can you imagine the individuals who make flat cars and rails and railroad engines and who construct and install the communication systems incidental thereto? These legions are among my antecedents.

Consider the millwork in San Leandro. The cedar logs are cut into small, pencil-length slats less than one-fourth of an inch in thickness. These are kiln-dried and then tinted

for the same reason women put rouge on their faces. People prefer that I look pretty, not a pallid white. The slats are waxed and kiln-dried again. How many skills went into the making of the tint and the kilns, into supplying the heat, the light and power, the belts, motors, and all the other things a mill requires? Sweepers in the mill among my ancestors? Yes, and included are the men who poured the concrete for the dam of a Pacific Gas & Electric Company hydro plant which supplies the mill's power!

Don't overlook the ancestors present and distant who have a hand in transporting sixty carloads of slats across the nation.

Once in the pencil factory—\$4,000,000 in machinery and building, all capital accumulated by thrifty and saving parents of mine—each slat is given eight grooves by a complex machine, after which another machine lays leads in every other slat, applies glue, and places another slat atop—a lead sandwich, so to speak. Seven brothers and I are mechanically carved from this “wood-clinched” sandwich.

My “lead” itself—it contains no lead at all—is complex. The graphite is mined in Ceylon [Sri Lanka]. Consider these miners and those who make their many tools and the makers of the paper sacks in which the graphite

*the*Freeman

*Indeed, there are some among
this vast multitude who never
saw a pencil nor would they
know how to use one. Their
motivation is other than me.
Perhaps it is something like
this: Each of these millions sees
that he can thus exchange his
tiny know-how for the goods
and services he needs or wants.
I may or may not be
among these items.*



is shipped and those who make the string that ties the sacks and those who put them aboard ships and those who make the ships. Even the lighthouse keepers along the way assisted in my birth—and the harbor pilots.

The graphite is mixed with clay from Mississippi in which ammonium hydroxide is used in the refining process. Then wetting agents are added such as sulfonated tallow—animal fats chemically reacted with sulfuric acid. After passing through numerous machines, the mixture finally appears as endless extrusions—as from a sausage grinder—cut to size, dried, and baked for several hours at 1,850 degrees Fahrenheit. To increase their strength and smoothness the leads are then treated with a hot mixture which includes candelilla wax from Mexico, paraffin wax, and hydrogenated natural fats.

My cedar receives six coats of lacquer. Do you know all the ingredients of lacquer? Who would think that the growers of castor beans and the refiners of castor oil are a part of it? They are. Why, even the processes by which the lacquer is made a beautiful yellow involve the skills of more persons than one can enumerate!

Observe the labeling. That's a film formed by applying heat to carbon black mixed with resins. How do you make resins and what, pray, is carbon black?

My bit of metal—the ferrule—is brass. Think of all the persons who mine zinc and copper and those who have the skills to make shiny sheet brass from these products



of nature. Those black rings on my ferrule are black nickel. What is black nickel and how is it applied? The complete story of why the center of my ferrule has no black nickel on it would take pages to explain.

Then there's my crowning glory, inelegantly referred to in the trade as "the plug," the part man uses to erase the errors he makes with me. An ingredient called "factice" is what does the erasing. It is a rubber-like product made by reacting rapeseed oil from the Dutch East Indies [Indonesia] with sulfur chloride. Rubber, contrary to the common notion, is only for binding purposes. Then, too, there are numerous vulcanizing and accelerating agents. The pumice comes from Italy; and the pigment which gives "the plug" its color is cadmium sulfide.

NO ONE KNOWS

Does anyone wish to challenge my earlier assertion that no single person on the face of this earth knows how to make me?

Actually, millions of human beings have had a hand in my creation, no one of whom even knows more than a very few of the others. Now, you may say that I go too far in relating the picker of a coffee berry in far-off Brazil and food growers elsewhere to my creation; that this is an extreme position. I shall stand by my claim. There isn't a single person in all these millions, including the president of the pencil company, who contributes more

than a tiny, infinitesimal bit of know-how. From the standpoint of know-how the only difference between the miner of graphite in Ceylon and the logger in Oregon is in the type of know-how. Neither the miner nor the logger can be dispensed with, any more than can the chemist at the factory or the worker in the oil field—paraffin being a by-product of petroleum.

Here is an astounding fact: Neither the worker in the oil field nor the chemist nor the digger of graphite or clay nor any who mans or makes the ships or trains or trucks nor the one who runs the machine that does the knurling on my bit of metal nor the president of the company performs his singular task because he wants me. Each one wants me less, perhaps, than does a child in the first grade. Indeed, there are some among this vast multitude who never saw a pencil nor would they know how to use one. Their motivation is other than me. Perhaps it is something like this: Each of these millions sees that he can thus exchange his tiny know-how for the goods and services he needs or wants. I may or may not be among these items.

NO MASTER MIND

There is a fact still more astounding: The absence of a master mind, of anyone dictating or forcibly directing these countless actions which bring me into being. No trace of such a person can be found. Instead, we find the

*the*Freeman

Invisible Hand at work. This is the mystery to which I earlier referred.

It has been said that “only God can make a tree.” Why do we agree with this? Isn’t it because we realize that we ourselves could not make one? Indeed, can we even describe a tree? We cannot, except in superficial terms. We can say, for instance, that a certain molecular configuration manifests itself as a tree. But what mind is there among men that could even record, let alone direct, the constant changes in molecules that transpire in the life span of a tree? Such a feat is utterly unthinkable!

I, Pencil, am a complex combination of miracles: a tree, zinc, copper, graphite, and so on. But to these miracles which manifest themselves in Nature an even more extraordinary miracle has been added: the configuration of creative human energies—millions of tiny know-hows configuring naturally and spontaneously in response to human necessity and desire and in the absence of any human masterminding! Since only God can make a tree, I insist that only God could make me. Man can no more direct these millions of know-hows to bring me into being than he can put molecules together to create a tree.

*For, if one is aware that these
know-hows will naturally, yes,
automatically, arrange themselves
into creative and productive patterns
in response to human necessity and
demand...then one will possess an
absolutely essential ingredient for
freedom: a faith in free people.*



The above is what I meant when writing, “If you can become aware of the miraculousness which I symbolize, you can help save the freedom mankind is so unhappily losing.” For, if one is aware that these know-hows will naturally, yes, automatically, arrange themselves into creative and productive patterns in response to human necessity and demand—that is, in the absence of governmental or any other coercive master-minding—then one will possess an absolutely essential ingredient for freedom: a faith in free people. Freedom is impossible without this faith.

Once government has had a monopoly of a creative activity such, for instance, as the delivery of the mails, most individuals will believe that the mails could not be efficiently delivered by men acting freely. And here is the reason: Each one acknowledges that he himself doesn’t know how to do all the things incident to mail delivery. He also recognizes that no other individual could do it. These assumptions are correct. No individual possesses enough know-how to perform a nation’s mail delivery any more than any individual possesses enough know-how to make a pencil. Now, in the absence of faith in free people—in the unawareness that millions of tiny

know-hows would naturally and miraculously form and cooperate to satisfy this necessity—the individual cannot help but reach the erroneous conclusion that mail can be delivered only by governmental “masterminding.”

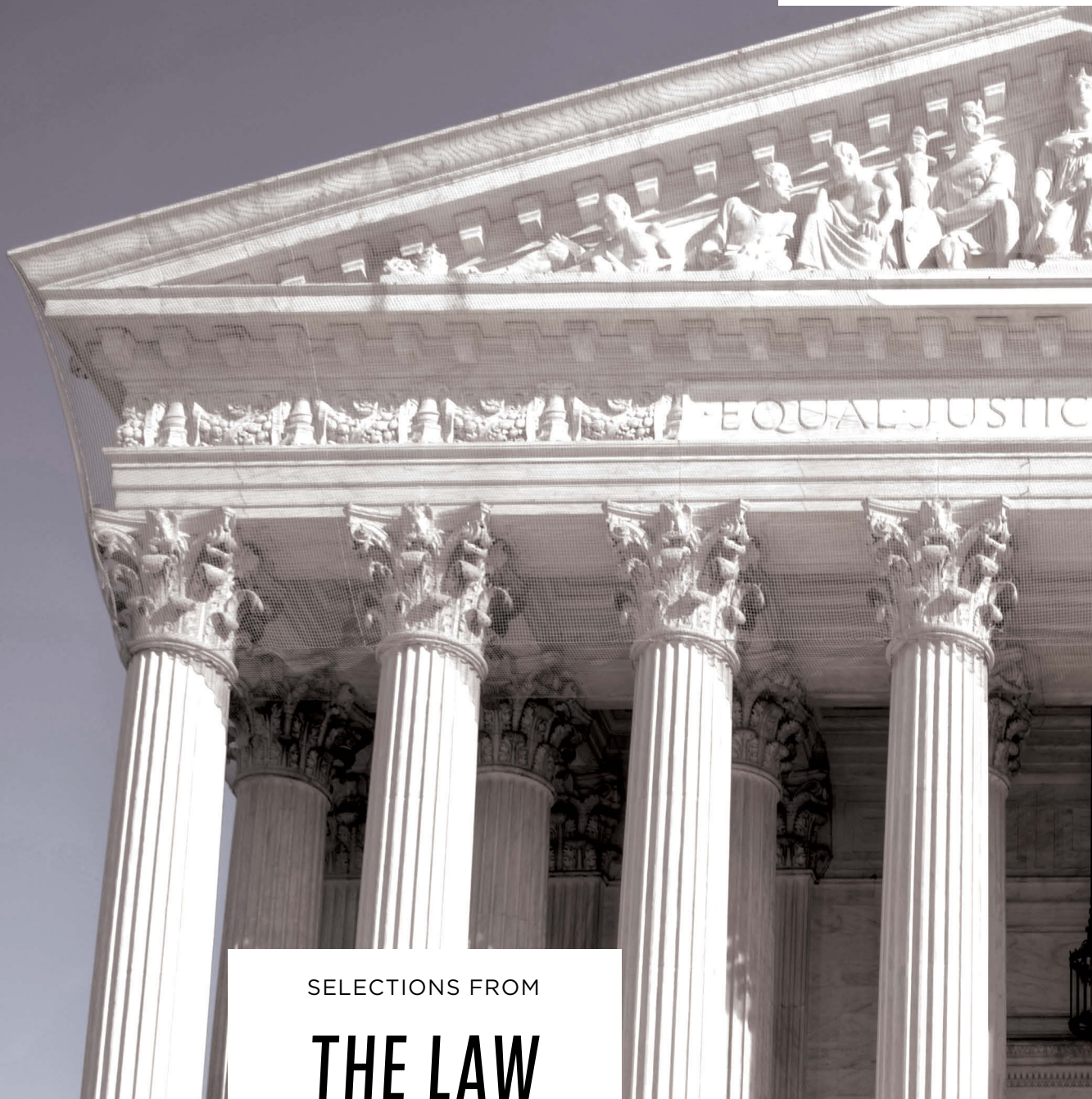
TESTIMONY GALORE

If I, Pencil, were the only item that could offer testimony on what men and women can accomplish when free to try, then those with little faith would have a fair case. However, there is testimony galore; it’s all about us and on every hand. Mail delivery is exceedingly simple when compared, for instance, to the making of an automobile or a calculating machine or a grain combine or a milling machine or to tens of thousands of other things. Delivery? Why, in this area where men have been left free to try, they deliver the human voice around the world in less than one second; they deliver an event visually and in motion to any person’s home when it is happening; they deliver 150 passengers from Seattle to Baltimore in less than four hours; they deliver gas from Texas to one’s range or furnace in New York at unbelievably low rates and without subsidy; they deliver each four pounds of oil from the Persian Gulf to our Eastern Seaboard—halfway around the world—for less money than the government charges for delivering a one-ounce letter across the street!

The lesson I have to teach is this: Leave all creative energies uninhibited. Merely organize society to act in harmony with this lesson. Let society’s legal apparatus remove all obstacles the best it can. Permit these creative know-hows freely to flow. Have faith that free men and women will respond to the Invisible Hand. This faith will be confirmed. I, Pencil, seemingly simple though I am, offer the miracle of my creation as testimony that this is a practical faith, as practical as the sun, the rain, a cedar tree, the good earth. ■

Leonard E. Read founded FEE in 1946 and served as president until 1983. Read more at FEE.org/Read.





03

SELECTIONS FROM

THE LAW

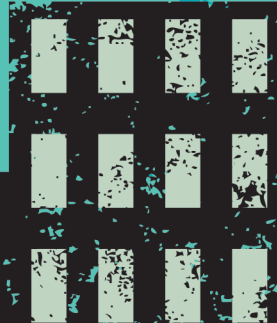
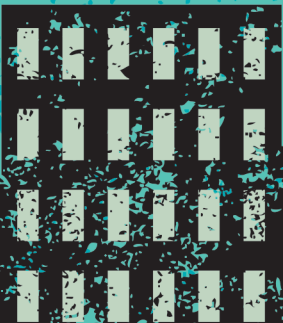
By Frédéric Bastiat

WHAT IS LIBERTY? Actually, what is the political struggle that we witness? It is the instinctive struggle of all people toward liberty. And what is this liberty, whose very name makes the heart beat faster and shakes the world? Is it not the union of all liberties—liberty of conscience, of education, of association, of the press, of travel, of labor, of trade? In short, is not liberty the freedom of every person to make full use of his faculties, so long as he does not harm other persons while doing so? Is not liberty the destruction of all despotism—including,

of course, legal despotism? Finally, is not liberty the restricting of the law only to its rational sphere of organizing the right of the individual to lawful self-defense; of punishing injustice?

It must be admitted that the tendency of the human race toward liberty is largely thwarted, especially in France. This is greatly due to a fatal desire—learned from the teachings of antiquity—that our writers on public affairs have in common: They desire to set themselves above mankind in order to arrange, organize, and regulate it according to their fancy.





THE VICIOUS CIRCLE OF SOCIALISM

We shall never escape from this circle: the idea of passive mankind, and the power of the law being used by a great man to propel the people.

Once on this incline, will society enjoy some liberty? (Certainly.) And what is liberty, Mr. Louis Blanc?

Once and for all, liberty is not only a mere granted right; it is also the power granted to a person to use and to develop his faculties under a reign of justice and under the protection of the law.

And this is no pointless distinction; its meaning is deep and its consequences are difficult to estimate. For once it is agreed that a person, to be truly free, must have the power to use and develop his faculties, then it follows that every person has a claim on society for such education as will *permit him* to develop himself. It also follows that every person has a claim on society for tools of production, without which human activity cannot be fully effective. Now by what action can society give to every person the necessary education and the necessary tools of production, if not by the action of the state?

Thus, again, liberty is power. Of what does this power consist? (Of being educated and of being given the tools of production.) Who is to give the education and the tools of production? (Society, *which owes them to everyone*.) By what action is society to give tools of production to those who do not own them? (*Why, by the action of the state*.) And from whom will the state take them?

Let the reader answer that question. Let him also notice the direction in which this is taking us.

THE SOCIALISTS REJECT FREE CHOICE

Please understand that I do not dispute their right to invent social combinations, to advertise them, to advocate them, and to try them upon themselves, at their own expense and risk. But I do dispute their right to impose these plans upon us by law—by force—and to compel us to pay for them with our taxes.

I do not insist that the supporters of these various social schools of thought—the Proudhonists, the Cabetists, the Fourierists, the Universitarists, and the Protectionists—renounce their various ideas. I insist only that they renounce this one idea that they have in common: They need only to give up the idea of forcing us to acquiesce to their groups and series, their socialized

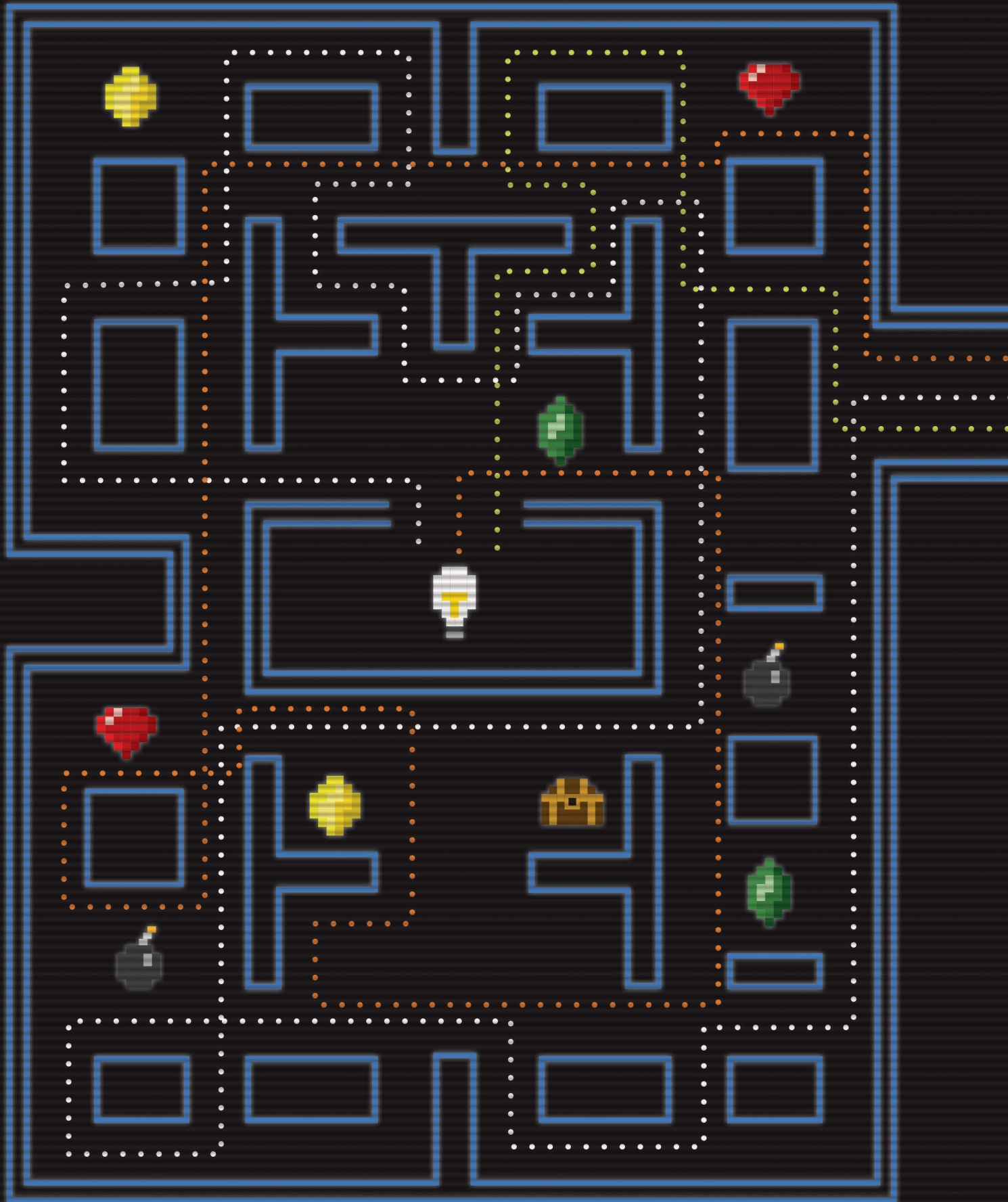
*Is not liberty the freedom
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he does not harm other persons
while doing so?*

projects, their free-credit banks, their Graeco-Roman concept of morality, and their commercial regulations. I ask only that we be permitted to decide upon these plans for ourselves; that we not be forced to accept them, directly or indirectly, if we find them to be contrary to our best interests or repugnant to our consciences.

But these organizers desire access to the tax funds and to the power of the law in order to carry out their plans. In addition to being oppressive and unjust, this desire also implies the fatal supposition that the organizer is infallible and mankind is incompetent. But, again, if persons are incompetent to judge for themselves, then why all this talk about universal suffrage? ■

The Law. trans. Dean Russell. Irvington-on-Hudson, NY and Atlanta: The Foundation for Economic Education, 2007.

Frédéric Bastiat was a French economist who wrote several short works on classical liberal political and economic theory in the mid-nineteenth century. Read more at FEE.org/Bastiat.



HIGH

20



SELECTIONS FROM

04

THE CASE FOR FREEDOM

By F.A. Hayek

The case for individual freedom rests chiefly on the recognition of the inevitable ignorance of all of us concerning a great many of the factors on which the achievement of our ends and welfare depends.

If there were omniscient men, if we could know not only all that affects the attainment of our present wishes but also our future wants and desires, there would be little case for liberty. And, in turn, liberty of the individual would, of course, make complete foresight impossible. Liberty is essential in order to leave room for the unforeseeable and unpredictable; we want it because we have learned to expect from it the opportunity of realizing many of our aims. It is because every individual knows so little and, in particular, because we rarely know which of us knows best that we trust the independent and competitive efforts of many to induce the emergence of what we shall want when we see it.

Humiliating to human pride as it may be, we must recognize that the advance and even the preservation of civilization are dependent upon a maximum of opportunity for accidents to happen. These accidents occur in the combination of knowledge and attitudes, skills and habits, acquired by individual men and also when qualified men are confronted with the particular circumstances which they are equipped to deal with. Our necessary ignorance of so much means that we have to deal largely with probabilities and chances.

Of course, it is true of social as of individual life that favorable accidents usually do not just happen. We must prepare for them. But they still remain chances and do not become certainties. They involve risks deliberately taken, the possible misfortune of individuals and groups who are as meritorious as others who prosper, the possibility of serious failure or relapse even for the majority, and merely a high probability of a net gain on balance.

Our faith in freedom does not rest on the foreseeable results in particular circumstances but on the belief that it will, on balance, release more forces for the good than for the bad.

All we can do is to increase the chance that some special constellation of individual endowment and circumstance will result in the shaping of some new tool or the improvement of an old one, and to improve the prospect that such innovations will become rapidly known to those who can take advantage of them.

IMPERFECT BEINGS

All political theories assume, of course, that most individuals are very ignorant. Those who plead for liberty differ from the rest in that they include among the ignorant themselves as well as the wisest. Compared with the totality of knowledge which is continually utilized in the evolution of a dynamic civilization, the difference between the knowledge that the wisest and that which the most ignorant individual can deliberately employ is comparatively insignificant.

The classical argument for tolerance formulated by John Milton and John Locke and restated by John Stuart Mill and Walter Bagehot rests, of course, on the recognition of this ignorance of ours. It is a special application of general considerations to which a nonrationalist insight into the working of our mind opens the doors. We shall find throughout this book that, though we are usually not aware of it, all institutions of freedom are adaptations to this fundamental fact of ignorance, adapted to deal with chances and probabilities, not certainty. Certainty we cannot achieve in human affairs, and it is for this reason that, to make the best use of what knowledge we have, we

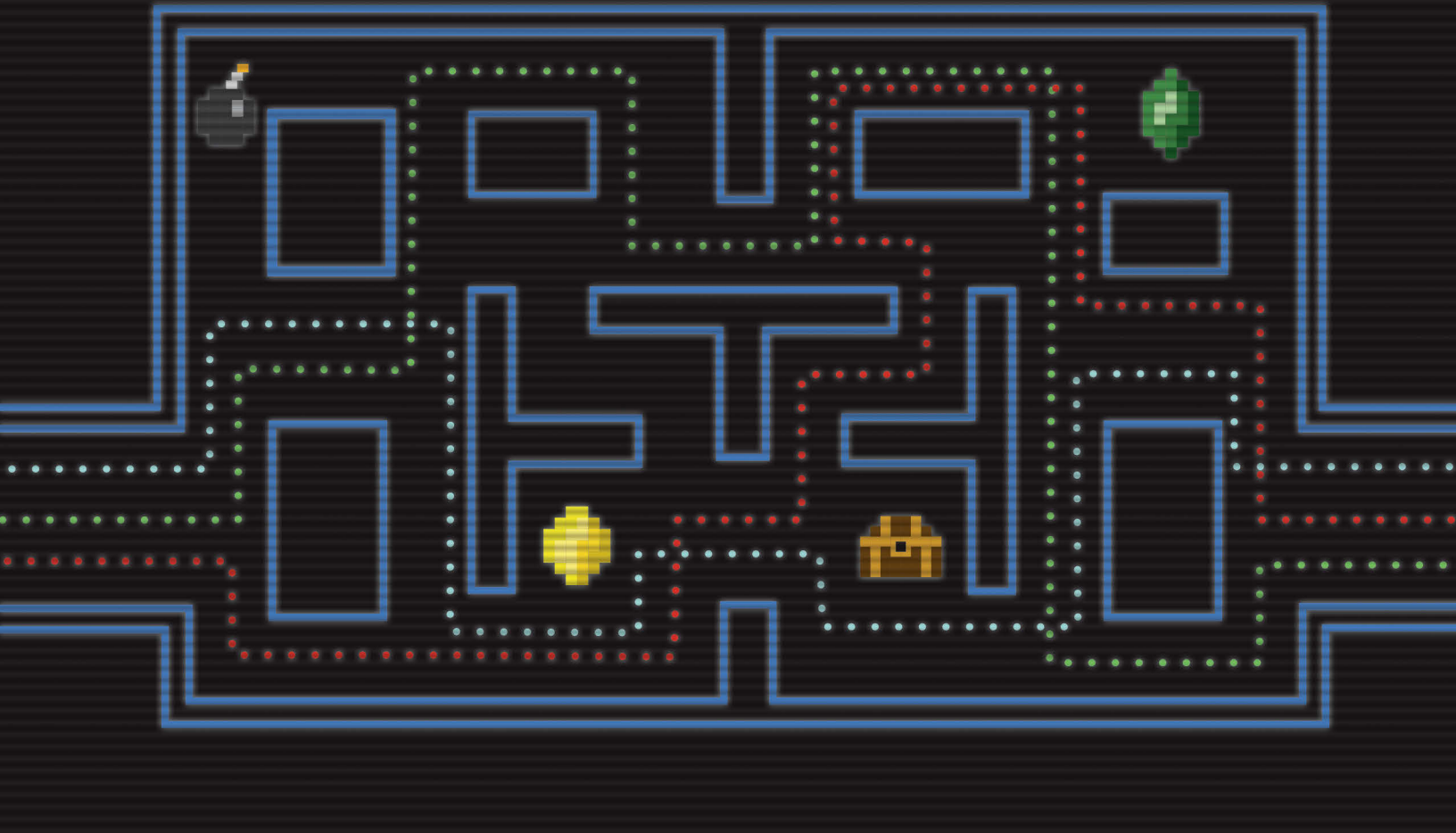
must adhere to rules which experience has shown to serve best on the whole, though we do not know what will be the consequences of obeying them in the particular instance.

Man learns by the disappointment of expectations. Needless to say, we ought not to increase the unpredictability of events by foolish human institutions. So far as possible, our aim should be to improve human institutions so as to increase the chances of correct foresight. Above all, however, we should provide the maximum of opportunity for unknown individuals to learn of facts that we ourselves are yet unaware of and to make use of this knowledge in their actions.

It is through the mutually adjusted efforts of many people that more knowledge is utilized than any one individual possesses or than it is possible to synthesize intellectually; and it is through such utilization of dispersed knowledge that achievements are made possible, greater than any single mind can foresee. It is because freedom means the renunciation of direct control of individual efforts that a free society can make use of so much more knowledge than the mind of the wisest ruler could comprehend.

THE CHANCE OF ERROR

From this foundation of the argument for liberty it follows that we shall not achieve its ends if we confine liberty to the particular instances where we know it will do good. Freedom granted only when it is known beforehand that its effects will be beneficial is not freedom.



If we knew how freedom would be used, the case for it would largely disappear. We shall never get the benefits of freedom, never obtain those unforeseeable new developments for which it provides the opportunity, if it is not also granted where the uses made of it by some do not seem desirable. It is therefore no argument against individual freedom that it is frequently abused. Freedom necessarily means that many things will be done which we do not like. Our faith in freedom does not rest on the foreseeable results in particular circumstances but on the belief that it will, on balance, release more forces for the good than for the bad.

It also follows that the importance of our being free to do a particular thing has nothing to do with the question of whether we or the majority are ever likely to make use of that particular possibility. To grant no more freedom than all can exercise would be to misconceive its function completely. The freedom that will be used by only one man in a million may be more important to society and more beneficial to the majority than any freedom that we all use. It might even be said that the less likely the opportunity to make use of freedom to do a particular thing, the more precious it will be for society as a whole. The less likely the opportunity, the more serious will it be to miss it when it arises, for the experience that it offers will be nearly unique.

It is also probably true that the majority are not directly interested in most of the important things that any one person should be free to do. It is because we do not know how individuals will use their freedom that it is so important. If it were otherwise, the results of freedom could also be achieved by the majority's deciding what should be done by the individuals. But majority action is, of necessity, confined to the already tried and ascertained, to issues on which agreement has already been reached in that process of discussion that must be preceded by different experiences and actions on the part of different individuals.

FREEDOM FOR THE UNKNOWN

The benefits I derive from freedom are thus largely the result of the uses of freedom by others, and mostly of those uses of freedom that I could never avail myself of. It is therefore not necessarily freedom that I can exercise myself that is most important for me. It is certainly more important that anything can be tried by somebody than that all can do the same things. It is not because we like to be able to do particular things, not because we regard any particular freedom as essential to our happiness, that we have a claim to freedom. The instinct that makes us revolt against any physical restraint, though a helpful ally, is not always a safe guide for justifying or delimiting freedom.

What is important is not what freedom I personally would like to exercise but what freedom some person may need in order to do things beneficial to society. This freedom we can assure to the unknown person only by giving it to all.

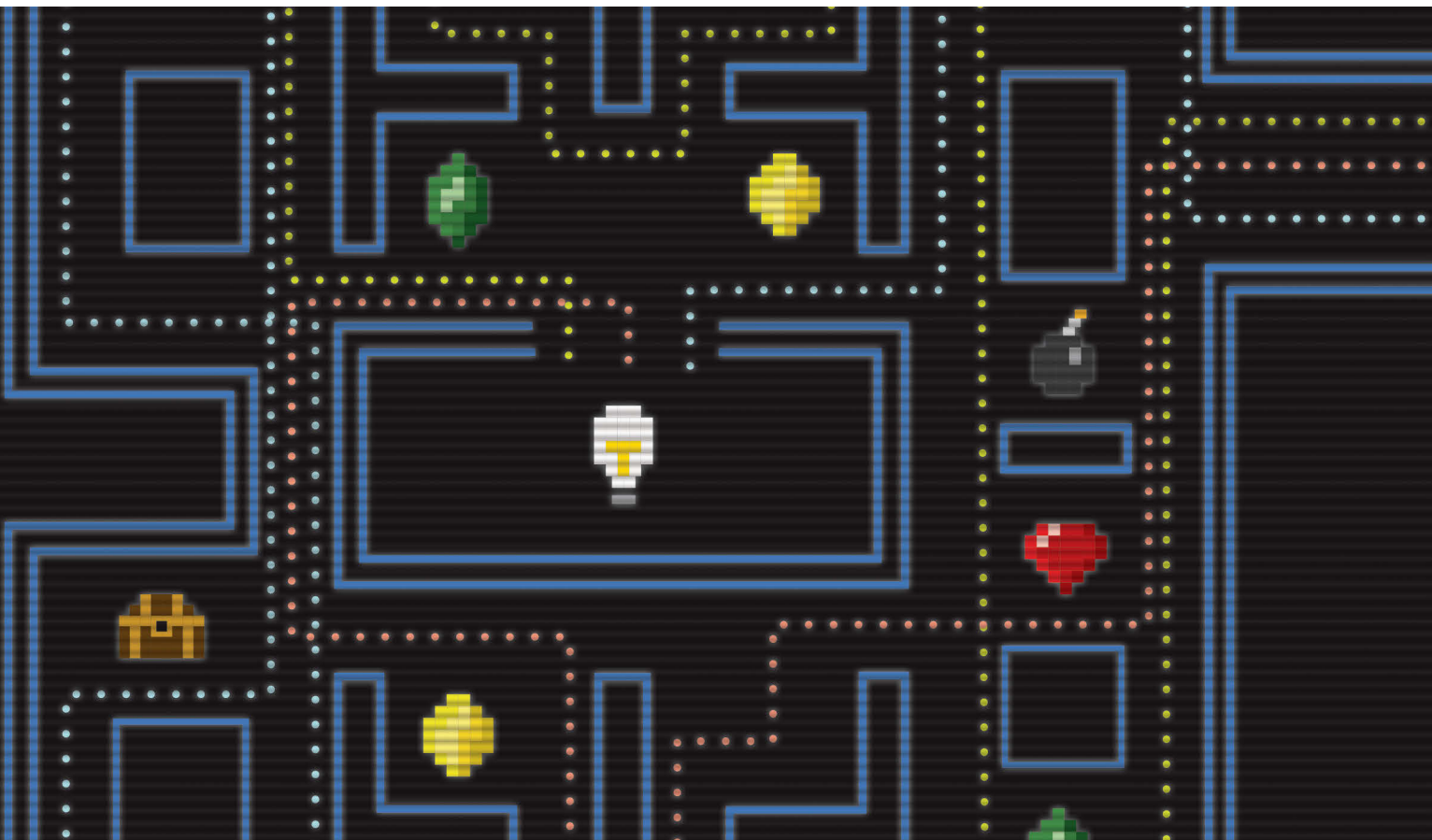
The benefits of freedom are therefore not confined to the free—or, at least, a man does not benefit mainly from those aspects of freedom which he himself takes advantage of. There can be no doubt that in history unfree majorities have benefited from the existence of free minorities and that today unfreed societies benefit from what they obtain and learn from free societies. Of course, the benefits we derive from the freedom of others become greater as the number of those who can exercise freedom increases. The argument for the freedom of some therefore applies to the freedom of all.

But it is still better for all that some should be free than none and also that many enjoy full freedom than that all have a restricted freedom. The significant point is that the importance of freedom to do a particular thing has nothing to do with the number of people who want to do it: it might almost be in inverse proportion. One

consequence of this is that a society may be hamstrung by controls, although the great majority may not be aware that their freedom has been significantly curtailed. If we proceeded on the assumption that only the exercises of freedom that the majority will practice are important, we would be certain to create a stagnant society with all the characteristic of unfreedom.

THE NATURE OF CHANGE

The undesigned novelties that constantly emerge in the process of adaptation will consist, first, of new arrangements or patterns in which the efforts of different individuals are coordinated and of new constellations in the use of resources, which will be in their nature as temporary as the particular conditions that have evoked them. There will be, second, modifications of tools and institutions adapted to the new circumstances. Some of these will also be merely temporary adaptations to the conditions of the moment, while others will be improvements that increase the versatility of the existing tools and usages and will therefore be retained. These latter will constitute a better adaptation not merely to the



particular circumstances of time and place but to some permanent feature of our environment. In such spontaneous "formations" is embodied a perception of the general laws that govern nature. With this cumulative embodiment of experience in tools and forms of action will emerge a growth of explicit knowledge, of formulated generic rules that can be communicated by language from person to person.

This process by which the new emerges is best understood in the intellectual sphere when the results are new ideas. It is the field in which most of us are aware at least of some of the individual steps of the process, where we necessarily know what is happening and thus generally recognize the necessity of freedom. Most scientists realize that we cannot plan the advance of knowledge, that in the voyage into the unknown—which is what research is—we are in great measure dependent on the vagaries of individual genius and of circumstance, and that scientific advance, like a new idea that will spring up in a single mind, will be the result of a combination of conceptions, habits, and circumstances brought to one person by society, the result as much of lucky accidents as of systematic effort.

Because we are more aware that our advances in the intellectual sphere often spring from the unforeseen and undesigned, we tend to overstress the importance of freedom in this field and to ignore the importance of the freedom of doing things. But the freedom of research and belief and the freedom of speech and discussion, the importance of which is widely understood, are significant only in the last stage of the process in which new truths are discovered. To extol the value of intellectual liberty at the expense of the value of the liberty of doing things would be like treating the crowning part of an edifice as the whole. We have new ideas to discuss, different views to adjust, because those ideas and views arise from the efforts of individuals in ever new circumstances, who avail themselves in their concrete tasks of the new tools and forms of action they have learned.

THE COMPLEXITY OF PROGRESS

The non-intellectual part of this process—the formation of the changed material environment in which

the new emerges—requires for its understanding and appreciation a much greater effort of imagination than the factors stressed by the intellectualist view. While we are sometimes able to trace the intellectual processes that have led to a new idea, we can scarcely ever reconstruct the sequence and combination of those contributions that have not led to the acquisition of explicit knowledge; we can scarcely ever reconstruct the favorable habits and skills employed, the facilities and opportunities used, and the particular environment of the main actors that has favored the result.

*Liberty is essential
in order to
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unpredictable.*

Our efforts toward understanding this part of the process can go little further than to show on simplified models the kind of forces at work and to point to the general principle rather than the specific character of the influences that operate. Men are always concerned only with what they know. Therefore, those features which, while the process is under way, are not consciously known to anybody are commonly disregarded and can perhaps never be traced in detail.

In fact, these unconscious features not only are commonly disregarded but are often treated as if they were a hindrance rather than a help or an essential condition. Because they are not "rational" in the sense of explicitly entering into our reasoning, they are often treated as irrational in the sense of being contrary to intelligent action. Yet, though much of the nonrational that affects our action may be irrational in this sense, many of the "mere habits" and "meaningless institutions" that we use and presuppose in our actions are essential conditions for what we achieve; they are successful adaptations of society that are constantly improved and on which depends the range of what we can achieve. While it is important to discover their defects, we could not for a moment go on without constantly relying on them.

The manner in which we have learned to order our day, to dress, to eat, to arrange our houses, to speak and write, and to use the countless other tools and implements of civilization, no less than the "know-how" of production and trade, furnishes us constantly with the foundations on which our own contributions to the process of civilization must be based. And it is in the new use and improvement of whatever the facilities of

*It is still better for all that some should be free
than none and also that many enjoy full freedom
than that all have a restricted freedom.*

civilization offer us that the new ideas arise that are ultimately handled in the intellectual sphere.

Though the conscious manipulation of abstract thought, once it has been set in train, has in some measure a life of its own, it would not long continue and develop without the constant challenges that arise from the ability of people to act in a new manner, to try new ways of doing things, and to alter the whole structure of civilization in adaptation to change. The intellectual process is in effect only a process of elaboration, selection, and elimination of ideas already formed. And the flow of new ideas, to a great extent, springs from the sphere in which action, often non rational action, and material events impinge upon each other. It would dry up if freedom were confined to the intellectual sphere.

The importance of freedom, therefore, does not depend on the elevated character of the activities it makes possible. Freedom of action, even in humble things, is as important as freedom of thought. It has become a common practice to disparage freedom of action by calling it "economic liberty." But the concept of freedom of action is much wider than that of economic liberty, which it includes; and, what is more important, it is very questionable whether there are any actions which can be called merely "economic" and whether any restrictions on liberty can be confined to what are called merely "economic" aspects. Economic considerations are merely those by which we reconcile and adjust our different purposes, none of which, in the last resort, are economic (excepting those of the miser or the man for whom making money has become an end in itself).

THE GOALS ARE OPEN

Most of what we have said so far applies not only to man's use of the means for the achievement of his ends but also to those ends themselves. It is one of the

characteristics of a free society that men's goals are open, that new ends of conscious effort can spring up, first with a few individuals, to become in time the ends of most. It is a fact which we must recognize that even what we regard as good or beautiful is changeable—if not in any recognizable manner that would entitle us to take a relativistic position, then in the sense that in many respects we do not know what will appear as good or beautiful to another generation. Nor do we know why we regard this or that as good or who is right when people differ as to whether something is good or not. It is not only in his knowledge, but also in his aims and values, that man is the creature of civilization; in the last resort, it is the relevance of these individual wishes to the perpetuation of the group or the species that will determine whether they will persist or change.

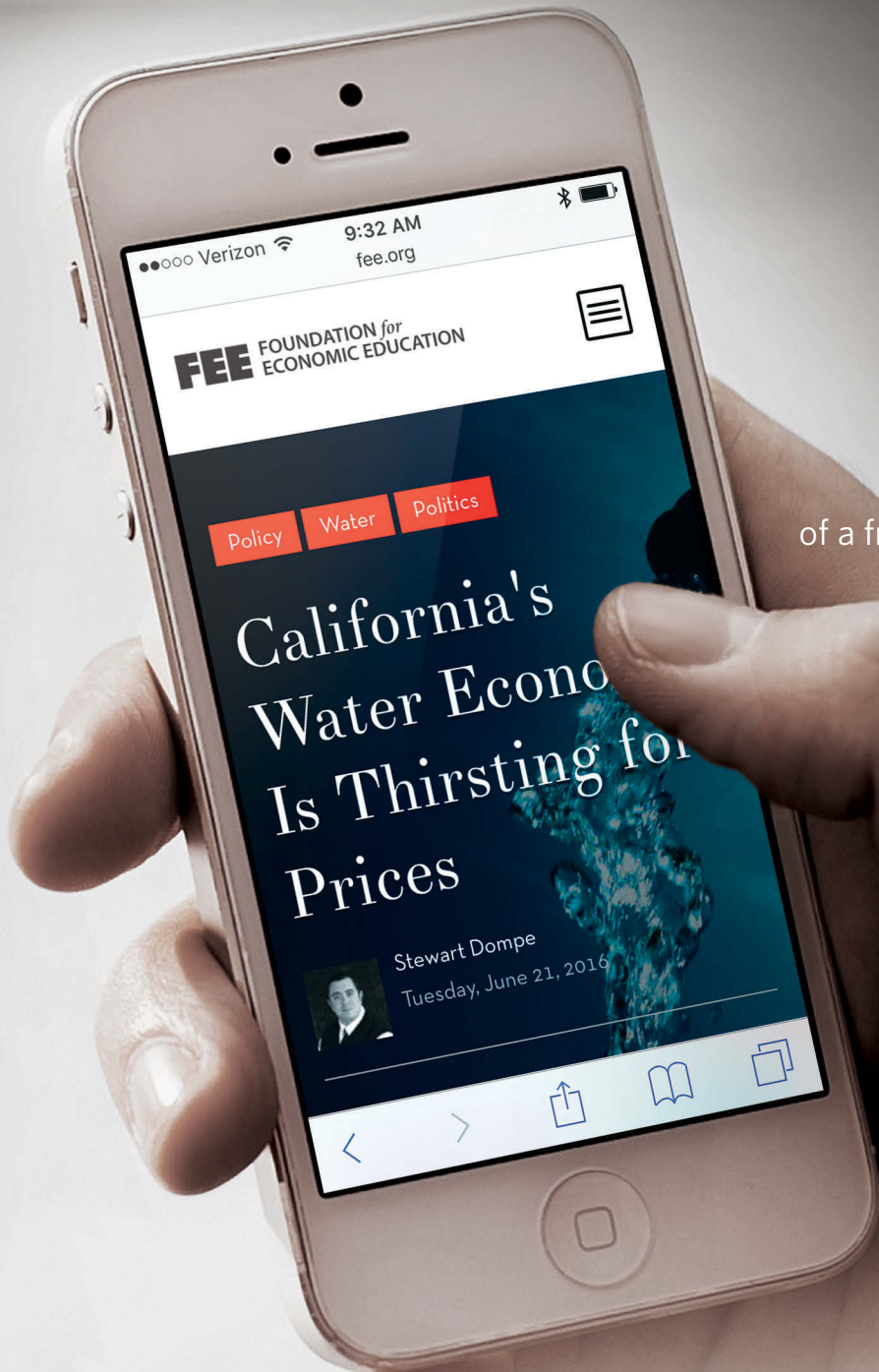
It is, of course, a mistake to believe that we can draw conclusions about what our values ought to be simply because we realize that they are a product of evolution. But we cannot reasonably doubt that these values are created and altered by the same evolutionary forces that have produced our intelligence. All that we can know is that the ultimate decision about what is good or bad will be made not by individual human wisdom but by the decline of the groups that have adhered to the "wrong" beliefs. ■

"The Case for Freedom." Reprinted from *The Constitution of Liberty* by F. A. Hayek by permission of The University of Chicago Press.(Chicago: © 1960 by the University of Chicago). pp 570

F. A. Hayek won the Nobel Prize in Economic Sciences for his work on the theory of money and interdependence of economic, social and institutional phenomena. Read more at FEE.org/Hayek.

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WHY SOCIALISM FAILED

BY MARK J. PERRY

Socialism is the Big Lie of the twentieth century. While it promised prosperity, equality, and security, it delivered poverty, misery, and tyranny. Equality was achieved only in the sense that everyone was equal in his or her misery.

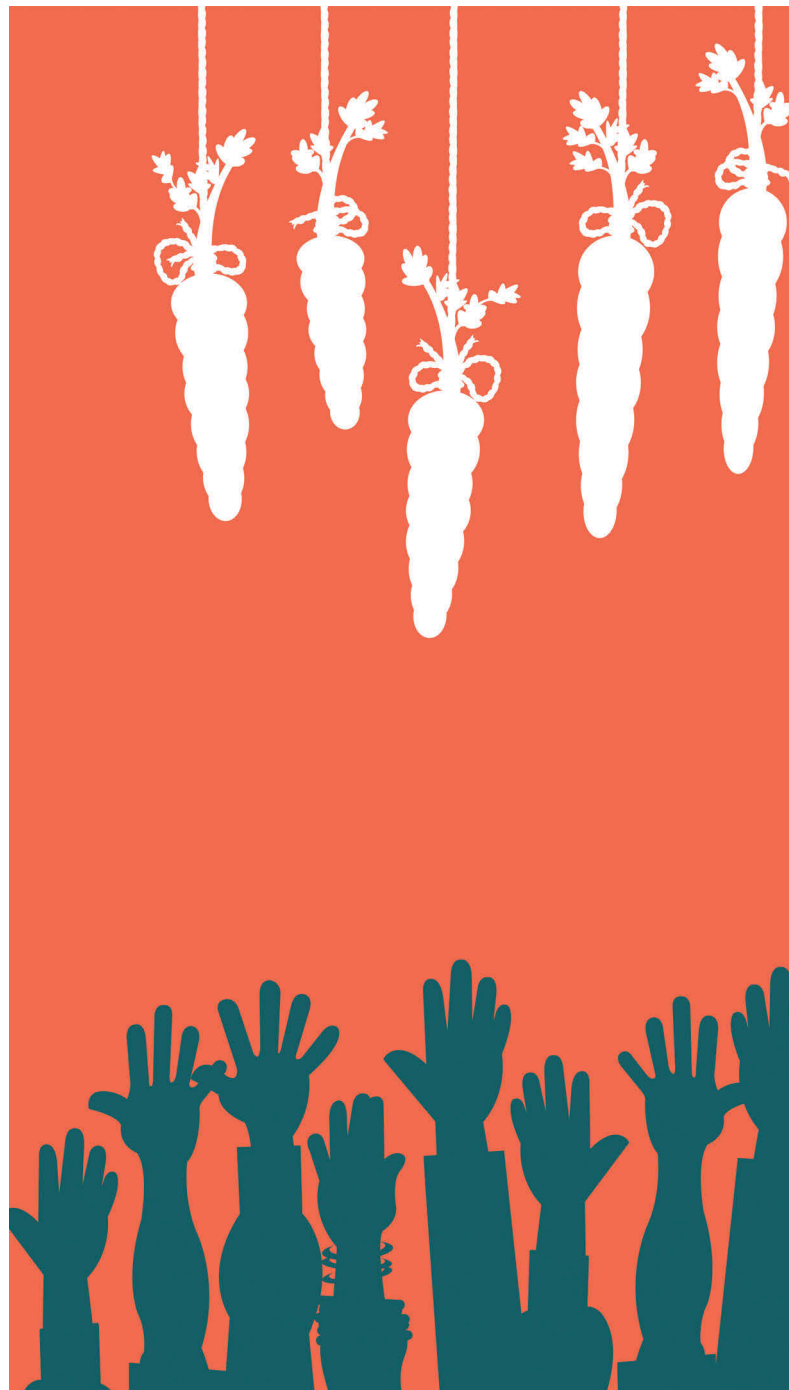
In the same way that a Ponzi scheme or chain letter initially succeeds but eventually collapses, socialism may show early signs of success. But any accomplishments quickly fade as the fundamental deficiencies of central planning emerge. It is the initial illusion of success that gives government intervention its pernicious, seductive appeal. In the long run, socialism has always proven to be a formula for tyranny and misery.

A pyramid scheme is ultimately unsustainable because it is based on faulty principles. Likewise, collectivism is unsustainable in the long run because it is a flawed theory. Socialism does not work because it is not consistent with fundamental principles of human behavior. The failure of socialism in countries around the world can be traced to one critical defect: it is a system that ignores incentives.

In a capitalist economy, incentives are of the utmost importance. Market prices, the profit-and-loss system of accounting, and private property rights provide an efficient, interrelated system of incentives to guide and direct economic behavior. Capitalism is based on the theory that incentives matter!

Under socialism, incentives either play a minimal role or are ignored totally. A centrally planned economy without market prices or profits, where property is owned by the state, is a system without an effective incentive mechanism to direct economic activity. By failing to emphasize incentives, socialism is a theory inconsistent with human nature and is therefore doomed to fail. Socialism is based on the theory that incentives don't matter!

In a radio debate several months ago with a Marxist professor from the University of Minnesota, I pointed out the obvious failures of socialism around the world in Cuba, Eastern Europe, and China. At the time of our



debate, Haitian refugees were risking their lives trying to get to Florida in homemade boats. Why was it, I asked him, that people were fleeing Haiti and traveling almost 500 miles by ocean to get to the “evil capitalist empire” when they were only 50 miles from the “workers’ paradise” of Cuba?

The Marxist admitted that many “socialist” countries around the world were failing. However, according to him, the reason for failure is not that socialism is deficient, but that the socialist economies are not practicing “pure” socialism. The perfect version of socialism would work; it

is just the imperfect socialism that doesn’t work. Marxists like to compare a theoretically perfect version of socialism with practical, imperfect capitalism which allows them to claim that socialism is superior to capitalism.

If perfection really were an available option, the choice of economic and political systems would be irrelevant. In a world with perfect beings and infinite abundance, any economic or political system—socialism, capitalism, fascism, or communism—would work perfectly.

However, the choice of economic and political institutions is crucial in an imperfect universe with imperfect beings and limited resources. In a world of scarcity it is essential for an economic system to be based on a clear incentive structure to promote economic efficiency. The real choice we face is between imperfect capitalism and imperfect socialism. Given that choice, the evidence of history overwhelmingly favors capitalism as the greatest wealth-producing economic system available.

The strength of capitalism can be attributed to an incentive structure based upon the three Ps: (1) prices determined by market forces, (2) a profit-and-loss system of accounting and (3) private property rights. The failure of socialism can be traced to its neglect of these three incentive-enhancing components.

PRICES

The price system in a market economy guides economic activity so flawlessly that most people don’t appreciate its importance. Market prices transmit information about relative scarcity and then efficiently coordinate economic activity. The economic content of prices provides incentives that promote economic efficiency.

For example, when the OPEC cartel restricted the supply of oil in the 1970s, oil prices rose dramatically. The higher prices for oil and gasoline transmitted valuable information to both buyers and sellers. Consumers received a strong, clear message about the scarcity of oil by the higher prices at the pump and were forced to change their behavior dramatically. People reacted to the scarcity by driving less, carpooling more, taking public transportation, and buying smaller cars. Producers reacted to the higher price by increasing their efforts at exploration for more oil. In addition, higher oil prices gave producers an incentive to explore and develop alternative fuel and energy sources.

The information transmitted by higher oil prices provided the appropriate incentive structure to both buyers and sellers. Buyers increased their effort to conserve a now more precious resource and sellers increased their effort to find more of this now scarcer resource.



The only alternative to a market price is a controlled or fixed price which always transmits misleading information about relative scarcity. Inappropriate behavior results from a controlled price because false information has been transmitted by an artificial, non-market price.

Look at what happened during the 1970s when U.S. gas prices were controlled. Long lines developed at service stations all over the country because the price for gasoline was kept artificially low by government fiat. The full impact of scarcity was not accurately conveyed. As Milton Friedman pointed out at the time, we could have eliminated the lines at the pump in one day by allowing the price to rise to clear the market.

From our experience with price controls on gasoline and the long lines at the pump and general inconvenience, we get an insight into what happens under socialism where every price in the economy is controlled. The collapse of socialism is due in part to the chaos and inefficiency that result from artificial prices. The information content of a controlled price is always distorted. This in turn distorts the incentives mechanism of prices under socialism. Administered prices are always either too high or too low, which then create constant shortages and surpluses. Market prices are the only way to transmit information that will create the incentives to ensure economic efficiency.

PROFITS AND LOSSES

Socialism also collapsed because of its failure to operate under a competitive, profit-and-loss system of accounting. A profit system is an effective monitoring mechanism which continually evaluates the economic performance of every business enterprise. The firms that are the most efficient and most successful at serving the public interest are rewarded with profits. Firms that operate inefficiently and fail to serve the public interest are penalized with losses.

By rewarding success and penalizing failure, the profit system provides a strong disciplinary mechanism which continually redirects resources away from weak, failing, and inefficient firms toward those firms which are the most efficient and successful at serving the public. A competitive profit system ensures a constant reoptimization of resources and moves the economy toward greater levels of efficiency. Unsuccessful firms cannot escape the strong discipline of the marketplace under a profit/loss system. Competition forces companies to serve the public interest or suffer the consequences.

Under central planning, there is no profit-and-loss system of accounting to accurately measure the success or failure of various programs. Without profits, there is no

COMPETITION FORCES COMPANIES TO SERVE THE PUBLIC INTEREST OR SUFFER THE CONSEQUENCES.

way to discipline firms that fail to serve the public interest and no way to reward firms that do. There is no efficient way to determine which programs should be expanded and which ones should be contracted or terminated.

Without competition, centrally-planned economies do not have an effective incentive structure to coordinate economic activity. Without incentives the results are a spiraling cycle of poverty and misery. Instead of continually reallocating resources towards greater efficiency, socialism falls into a vortex of inefficiency and failure.

PRIVATE PROPERTY RIGHTS

A third fatal defect of socialism is its blatant disregard for the role of private property rights in creating incentives that foster economic growth and development. The failure of socialism around the world is a “tragedy of the commons” on a global scale.

The “tragedy of the commons” refers to the British experience of the sixteenth century when certain grazing lands were communally owned by villages and were made available for public use. The land was quickly overgrazed and eventually became worthless as villagers exploited the communally-owned resource.

When assets are publicly owned, there are no incentives in place to encourage wise stewardship. While private property creates incentives for conservation and the responsible use of property, public property encourages irresponsibility and waste. If everyone owns an asset, people act as if no one owns it. And when no one owns it, no one really takes care of it. Public ownership encourages neglect and mismanagement.

Since socialism, by definition, is a system marked by the “common ownership of the means of production,” the failure of socialism is a “tragedy of the commons” on a national scale. Much of the economic stagnation of socialism can be traced to the failure to establish and promote private property rights.

As Peruvian economist Hernando de Soto remarked, you can travel in rural communities around the world and you will hear dogs barking, because even dogs understand property rights. It is only statist governments that have failed to understand property rights. Socialist countries are just now starting to recognize the importance of private property as they privatize assets and property in Eastern Europe.

INCENTIVES MATTER

Without the incentives of market prices, profit-and-loss accounting, and well-defined property rights, socialist economies stagnate and wither. The economic atrophy that occurs under socialism is a direct consequence of its neglect of economic incentives.

No bounty of natural resources can ever compensate a country for its lack of an efficient system of incentives. Russia, for example, is one of the world's wealthiest countries in terms of natural resources; it has some of the world's largest reserves of oil, natural gas, diamonds, and gold. Its valuable farmland, lakes, rivers, and streams stretch across a land area that encompasses 11 time zones. Yet Russia remains poor. Natural resources are helpful, but the ultimate resources of any country are the unlimited resources of its people—human resources.

By their failure to foster, promote, and nurture the potential of their people through incentive-enhancing institutions, centrally-planned economies deprive the human spirit of full development. Socialism fails because it kills and destroys the human spirit—just ask the people leaving Cuba in homemade rafts and boats.

As the former centrally-planned economies move toward free markets, capitalism, and democracy, they

look to the United States for guidance and support during the transition. With an unparalleled 250-year tradition of open markets and limited government, the United States is uniquely qualified to be the guiding light in the worldwide transition to freedom and liberty.

We have an obligation to continue to provide a framework of free markets and democracy for the global transition to freedom. Our responsibility to the rest of the world is to continue to fight the seductiveness of statism around the world and here at home. The seductive nature of statism continues to tempt and lure us into the Barmecidal illusion that the government can create wealth.

The temptress of socialism is constantly luring us with the offer: “Give up a little of your freedom and I will give you a little more security.” As the experience of this century has demonstrated, the bargain is tempting but never pays off. We end up losing both our freedom and our security.

Programs like socialized medicine, welfare, Social Security, and minimum wage laws will continue to entice us because on the surface they appear to be expedient and beneficial. Those programs, like all socialist programs, will fail in the long run regardless of initial appearances. These programs are part of the Big Lie of socialism because they ignore the important role of incentives.

Socialism will remain a constant temptation. We must be vigilant in our fight against socialism not only around the globe but also here in the United States.

The failure of socialism inspired a worldwide renaissance of freedom and liberty. For the first time in the history of the world, the day is coming very soon when a majority of the people in the world will live in free societies or societies rapidly moving toward freedom.

Capitalism will play a major role in the global revival of liberty and prosperity because it nurtures the human spirit, inspires human creativity, and promotes the spirit of enterprise. By providing a powerful system of incentives that promote thrift, hard work, and efficiency, capitalism creates wealth.

The main difference between capitalism and socialism is this: Capitalism works. ■

“Why Socialism Failed.” Mark J. Perry. The Foundation for Economic Education. May 31st, 1995.

Mark J. Perry is a scholar at the American Enterprise Institute and a Professor of Economics and Finance at the University of Michigan. Read more at FEE.org/Perry.

THE FAILURE OF
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INEQUALITY OF WEALTH AND INCOMES

BY LUDWIG VON MISES



The market economy—capitalism—is based on private ownership of the material means of production and private entrepreneurship. The consumers, by their buying or abstention from buying, ultimately determine what should be produced and in what quantity and quality. They render profitable the affairs of those businessmen who best comply with their wishes and unprofitable the affairs of those who do not produce what they are asking for most urgently. Profits convey control of the factors of production into the hands of those who are employing them for the best possible satisfaction of the most urgent needs of the consumers, and losses withdraw them from the control of the inefficient businessmen. In a market economy not sabotaged by the government the owners of property are

mandatories of the consumers as it were. On the market a daily repeated plebiscite determines who should own what and how much. It is the consumers who make some people rich and other people penniless.

Inequality of wealth and incomes is an essential feature of the market economy. It is the implement that makes the consumers supreme in giving them the power to force all those engaged in production to comply with their orders. It forces all those engaged in production to the utmost exertion in the service of the consumers. It makes competition work. He who best serves the consumers profits most and accumulates riches.

In a society of the type that Adam Ferguson, Saint-Simon, and Herbert Spencer called militaristic and present-day Americans call feudal, private property of

land was the fruit of violent usurpation or of donations on the part of the conquering warlord. Some people owned more, some less and some nothing because the chieftain had determined it that way. In such a society it was correct to assert that the abundance of the great land-owners was the corollary of the indigence of the landless.

But it is different in a market economy. Bigness in business does not impair, but improves the conditions of the rest of the people. The millionaires are acquiring their fortunes in supplying the many with articles that were previously beyond their reach. If laws had prevented them from getting rich, the average American household would have to forgo many of the gadgets and facilities that are today its normal equipment. This country enjoys the highest standard of living ever known in history because for several generations no attempts were made toward “equalization” and “redistribution.” Inequality of wealth and incomes is the cause of the masses’ well-being, not the cause of anybody’s distress. Where there is a “lower degree of inequality,” there is necessarily a lower standard of living of the masses.

DEMAND FOR “DISTRIBUTION”

In the opinion of the demagogues inequality in what they call the “distribution” of wealth and incomes is in itself the worst of all evils. Justice would require an equal distribution. It is therefore both fair and expedient to confiscate the surplus of the rich or at least a considerable part of it and to give it to those who own less. This philosophy tacitly presupposes that such a policy will not impair the total quantity produced. But even if this were true, the amount added to the average man’s buying power would be much smaller than extravagant popular illusions assume. In fact the luxury of the rich absorbs only a slight fraction of the nation’s total consumption.

The much greater part of the rich men’s incomes is not spent for consumption, but saved and invested. It is precisely this that accounts for the accumulation of their great fortunes. If the funds which the successful businessmen would have ploughed back into productive employments are used by the state for current expenditure or given to people who consume them, the further accumulation of capital is slowed down or entirely stopped. Then there is no longer any question of economic improvement, technological progress, and a trend toward higher average standards of living.

When Marx and Engels in the *Communist Manifesto* recommended “a heavy progressive or graduated income tax” and “abolition of all right of inheritance” as measures “to wrest, by degrees, all capital from the bourgeoisie,” they were consistent from the point of view of the



ultimate end they were aiming at, viz., the substitution of socialism for the market economy. They were fully aware of the inevitable consequences of these policies. They openly declared that these measures are “economically untenable” and that they advocated them only because “they necessitate further inroads” upon the capitalist social order and are “unavoidable as a means of entirely revolutionizing the mode of production,” i.e., as a means of bringing about socialism.

But it is quite a different thing when these measures which Marx and Engels characterized as “economically untenable” are recommended by people who pretend that they want to preserve the market economy and economic freedom. These self-styled middle-of-the-road politicians are either hypocrites who want to bring about socialism by deceiving the people about their real intentions, or they are ignoramuses who do not know what they are talking about. For progressive taxes upon incomes and upon estates are incompatible with the preservation of the market economy.

The middle-of-the-road man argues this way: “There is no reason why a businessman should slacken in the best conduct of his affairs only because he knows that his profits will not enrich him but will benefit all people. Even if he is not an altruist who does not care for lucre and who unselfishly toils for the common weal, he will have no motive to prefer a less efficient performance of his activities to a more efficient. It is not true that the only incentive that impels the great captains of industry is acquisitiveness. They are no less driven by the ambition to bring their products to perfection.”

FOR PROGRESSIVE TAXES UPON INCOMES AND UPON ESTATES ARE INCOMPATIBLE WITH THE PRESERVATION OF THE MARKET ECONOMY.

SUPREMACY OF THE CONSUMERS

This argumentation entirely misses the point. What matters is not the behavior of the entrepreneurs but the supremacy of the consumers. We may take it for granted that the businessmen will be eager to serve the consumers to the best of their abilities even if they themselves do not derive any advantage from their zeal and application. They will accomplish what according to their opinion best serves the consumers. But then it will no longer be the consumers that determine what they get. They will have to take what the businessmen believe is best for them. The entrepreneurs, not the consumers, will then be supreme. The consumers will no longer have the power to entrust control of production to those businessmen whose products they like most and to relegate those whose products they appreciate less to a more modest position in the system.

If the present American laws concerning the taxation of the profits of corporations, the incomes of individuals and inheritances had been introduced about sixty years ago, all those new products whose consumption has raised the standard of living of the "common man" would either not be produced at all or only in small quantities for the benefit of a minority. The Ford enterprises would not exist if Henry Ford's profits had been taxed away as soon as they came into being. The business structure of 1895 would have been preserved. The accumulation of new capital would have ceased or at least slowed down considerably. The expansion of production would lag behind the increase of population. There is no need to expatiate about the effects of such a state of affairs.

Profit and loss tell the entrepreneur what the consumers are asking for most urgently. And only the profits the entrepreneur pockets enable him to adjust his activities to the demand of the consumers. If the profits are expropriated, he is prevented from complying with the directives given by the consumers. Then the market economy is deprived of its steering wheel. It becomes a senseless jumble.

People can consume only what has been produced. The great problem of our age is precisely this: Who

should determine what is to be produced and consumed, the people or the State, the consumers themselves or a paternal government? If one decides in favor of the consumers, one chooses the market economy. If one decides in favor of the government, one chooses socialism. There is no third solution. The determination of the purpose for which each unit of the various factors of production is to be employed cannot be divided.

DEMAND FOR EQUALIZATION

The supremacy of the consumers consists in their power to hand over control of the material factors of production and thereby the conduct of production activities to those who serve them in the most efficient way. This implies inequality of wealth and incomes. If one wants to do away with inequality of wealth and incomes, one must abandon capitalism and adopt socialism. (The question whether any socialist system would really give income equality must be left to an analysis of socialism).

But, say the middle-of-the-road enthusiasts, we do not want to abolish inequality altogether. We want merely to substitute a lower degree of inequality for a higher degree.

These people look upon inequality as upon an evil. They do not assert that a definite degree of inequality which can be exactly determined by a judgment free of any arbitrariness and personal evaluation is good and has to be preserved unconditionally. They, on the contrary, declare inequality in itself as bad and merely contend that a lower degree of it is a lesser evil than a higher degree in the same sense in which a smaller quantity of poison in a man's body is a lesser evil than a larger dose. But if this is so, then there is logically in their doctrine no point at which the endeavors toward equalization would have to stop.

Whether one has already reached a degree of inequality which is to be considered low enough and beyond which it is not necessary to embark upon further measures toward equalization, is just a matter of personal judgments of value, quite arbitrary, different with different people and changing in the passing of

time. As these champions of equalization appraise confiscation and “redistribution” as a policy harming only a minority, viz., those whom they consider to be “too” rich, and benefiting the rest—the majority—of the people, they cannot oppose any tenable argument to those who are asking for more of this allegedly beneficial policy. As long as any degree of inequality is left, there will always be people whom envy impels to press for a continuation of the equalization policy. Nothing can be advanced against their inference: If inequality of wealth and incomes is an evil, there is no reason to acquiesce in any degree of it, however low; equalization must not stop before it has completely leveled all individuals’ wealth and incomes.

The history of the taxation of profits, incomes and estates in all countries clearly shows that once the principle of equalization is adopted, there is no point at which the further progress of the policy of equalization can be checked. If, at the time the Sixteenth Amendment was adopted, somebody had predicted that some years later the income tax progression would reach the height it has really attained in our day, the advocates of the Amendment would have called him a lunatic. It is certain that only a small minority in Congress will seriously oppose further sharpening of the progressive element in the tax rate scales if such a sharpening should be suggested by the Administration or by a congressman anxious to enhance his chances for re-election. For, under

the sway of the doctrines taught by contemporary pseudo-economists, all but a few reasonable men believe that they are injured by the mere fact that their own income is smaller than that of other people and that it is not a bad policy to confiscate this difference.

There is no use in fooling ourselves. Our present taxation policy is headed toward a complete equalization of wealth and incomes and thereby toward socialism. This trend can be reversed only by the cognition of the role that profit and loss and the resulting inequality of wealth and incomes play in the operation of the market economy. People must learn that the accumulation of wealth by the successful conduct of business is the corollary of the improvement of their own standard of living and vice versa. They must realize that bigness in business is not an evil, but both the cause and effect of the fact that they themselves enjoy all those amenities whose enjoyment is called the “American way of life.” ■

“Inequality of Wealth and Incomes.” Ludwig von Mises. *Ideas of Liberty*, May 1955. Foundation for Economic Education

Ludwig von Mises, widely considered to be the leading theorist of the Austrian School of Economics, was a close advisor to the Foundation for Economic Education. Read more at FEE.org/Mises.



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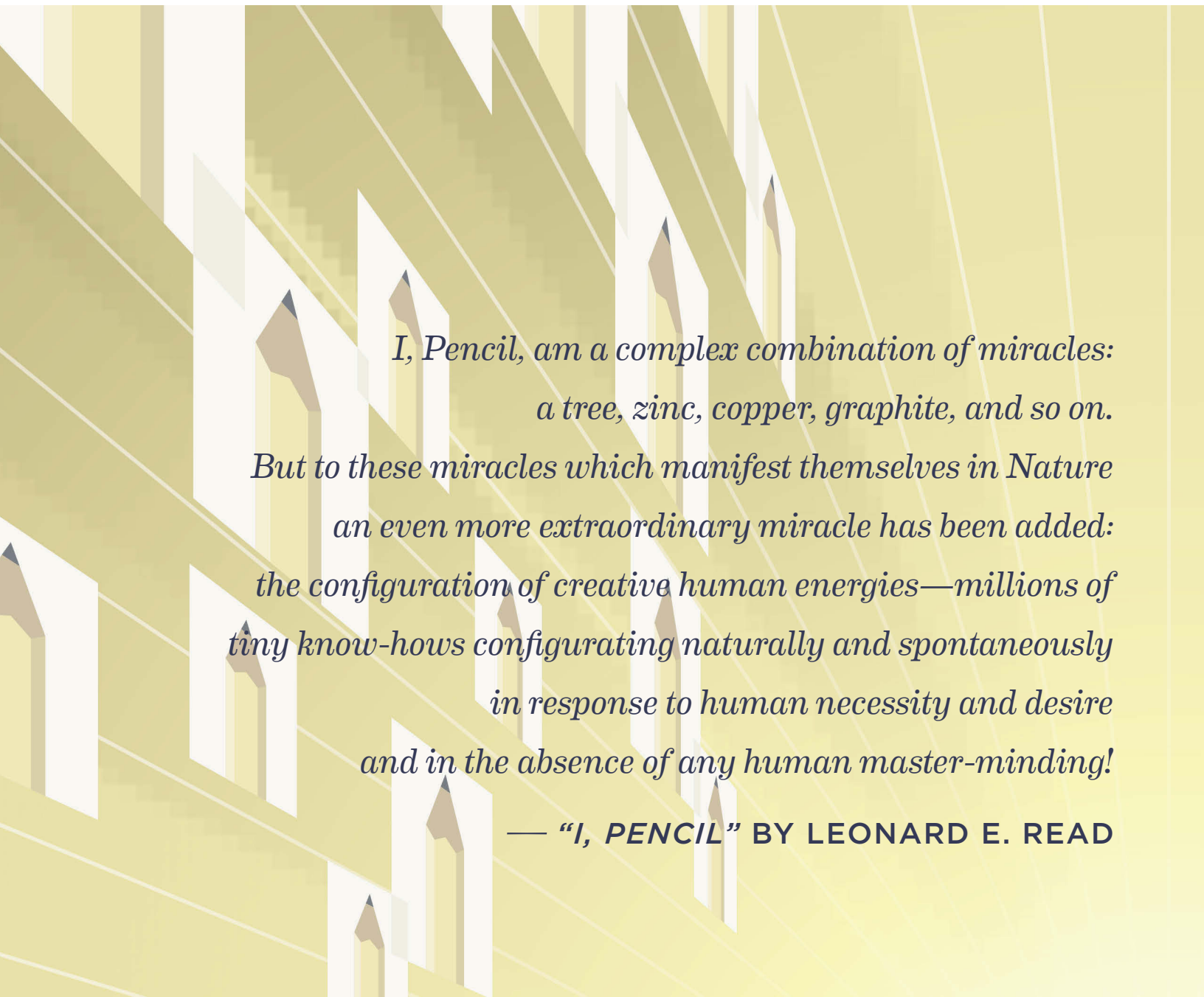
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a tree, zinc, copper, graphite, and so on.
But to these miracles which manifest themselves in Nature
an even more extraordinary miracle has been added:
the configuration of creative human energies—millions of
tiny know-hows configuring naturally and spontaneously
in response to human necessity and desire
and in the absence of any human master-minding!*

— “I, PENCIL” BY LEONARD E. READ