

The Single Tax: Economic and Moral Implications

Seventy-five years ago, Henry George spelled out his “single tax” program *Progress and Poverty*, one of the best-selling economic works of all time. According to E.R. Pease, socialist historian and long-time Secretary of the Fabian Society, this volume “beyond all question had more to do with the socialist revival of that period in England than any other book.”

Most present-day economists ignore the land question and Henry George altogether. Land is treated as simply capital, with no special features or problems. Yet there is a land question, and ignoring it does not lay the matter to rest. The Georgists have raised, and continue to raise, questions that need answering. A point-by-point examination of single tax theory is long overdue.

According to the single tax theory, individuals have the natural right to own themselves and the property they create. Hence they have the right to own the capital and consumer goods they produce. Land, however (meaning all original gifts of nature), is a different matter, they say. Land is God-given. Being God-given, none can justly belong to any individual; all land properly belongs to society as a whole.

Single taxers do not deny that land is improved by man; forests are cleared, soil is tilled, houses and factories are built. But they would separate the economic value of the improvements from the basic, or “site,” value of the original land. The former would continue to be owned by private owners; the latter would accrue to “society”—that

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is, to society's representative, the government. Rather than nationalize land outright, the single taxers would levy a 100 percent tax on the annual land *rent*—the annual income from the site—which amounts to the same thing as outright nationalization.

Georgists anticipate that the revenue from such tax on land would suffice to conduct all the operations of government—hence the name “single tax.” As population increases and civilization develops, land values (especially urban site values) increase, and single taxers expect that confiscation of this “unearned increment” will keep public coffers overflowing far into the future. The increment is said to be “unearned” because it stems from the growth of civilization rather than from any productive activities of the site owner.

Almost everyone would agree that the abolition of all the other taxes would lift a great blight from the energies of the people. But Georgists generally go beyond this to contend that their single tax would not harm production—since the tax is only levied on the basic site and not on the man-made improvements. In fact, they assert the single tax will spur production; it will penalize idle land and force landowners to develop their property in order to lower their tax burden.

Idle land, indeed, plays a large part in single tax theory, which contends that wicked speculators, holding out for their unearned increment, keep sites off the market, and cause a scarcity of land; that this speculation even causes depressions. A single tax, confiscating unearned increment, is supposed to eliminate land speculation, and so cure depressions and even poverty itself.

How can the single taxers give such importance to their program? How can they offer it as a panacea to end poverty? A clue may be found in the following comments about the plight of the undeveloped countries:

Most of us have learned to believe that the people of . . . so-called backward nations are poor because they lack capital. Since . . . capital is nothing more than . . . human energy combined with land in one form or another, the absence of capital too often suggests that there is a shortage of land or of labor in backward countries like India or China. But that isn't true. For these “poor” countries have many times more land and labor than they can use . . .

they have everything it takes—both land and labor—to produce as much capital as people anywhere.¹

And since these countries have plenty of land and labor, the trouble must be idle land withheld from production by speculative landlords!

The deficiency in that argument is the neglect of the time factor in production. Capital is the product of human energy and land . . . *and time*. The time-block is the reason that people must abstain from consumption, and save. Laboriously, these savings are invested in capital goods. We are further along the road to a high standard of living than India or China because we and our ancestors have saved and invested in capital goods, building up a great structure of capital. India and China, too, could achieve our living standards after years of saving and investment.

The single tax theory is further defective in that it runs up against a grave practical problem. How will the annual tax on land be levied? In many cases, the same person owns both the site and the man-made improvement, and buys and sells both site and improvement together, in a single package. How, then, will the government be able to separate site value from improvement value? No doubt, the single taxers would hire an army of tax assessors. But assessment is purely an arbitrary act and cannot be anything else. And being under the control of politics, it becomes purely a political act as well. Value can only be determined in exchange on the market. It cannot be determined by outside observers.

In the case of *agricultural* land, for instance, it is clear that you cannot, in practice, separate the value of the original ground from the value of the cleared, prepared, and tilled soil. This is obviously impossible, and even assessors would not attempt the task.

But the single taxers are also interested in *urban* land where the value of the lot is often separable, on the market, from the value of the building over it. Even so, the urban lot today is not the site as found in nature. Man had to find it, clear it, fence it, drain it, and the like; so the value of an “unimproved” lot includes the fruits of man-made improvements.

¹Phil Grant, *The Wonderful Wealth Machine* (New York: Devin-Adair, 1953), pp. 105–07.

Thus, pure site value could never be found in practice, and the single tax program could not be installed except by arbitrary authority. But let us waive this fatal flaw for the moment and pursue the rest of the theory. Let us suppose that pure site value *could* be found. Would a single tax program then be wise?

Well, what about idle land? Should the sight of it alarm us? On the contrary, we should thank our stars for one of the great economic facts of nature: *that labor is scarce relative to land*. It is a fact that there is more land available in the world, even quite useful land, than there is labor to keep it employed. This is a cause for rejoicing, not lament.

Since labor is scarce relative to land, and much land *must* therefore remain idle, any attempt to force *all* land into production would bring economic disaster. Forcing all land into use would take labor and capital away from more productive uses, and compel their wasteful employment on land, a disservice to consumers.

The single taxers claim that the tax could not possibly have any ill effects; that it could not hamper production because the site is already God-given, and man does not have to produce it; that, therefore, taxing the earnings from a site could not restrict production, as do all other taxes.² This claim rests on a fundamental assumption—the hard core of single tax doctrine: Since the site-owner performs no productive service he is, therefore, a parasite and an exploiter, and so taxing 100 percent of his income could not hamper production.

But this assumption is totally false. The owner of land does perform a very valuable productive service, a service completely separate from that of the man who builds on, and improves, the land. The site owner brings sites into use and allocates them to the most productive user. He can only earn the highest ground rents from his land by allocating the site to those users and uses that will satisfy the consumers in the best possible way. We have seen already that the site owner must decide whether or not to work a plot of land or keep it idle. He must also decide which use the land will best satisfy. In doing

²Unfortunately, most economists have accepted this claim uncritically and only dispute the practicality of the single tax program.

so, he also insures that each use is situated on its most productive *location*. A single tax would utterly destroy the market's important job of supplying efficient locations for all man's productive activities, and the efficient use of available land.

A 100 percent tax on rent would cause the capital value of all land to fall promptly to zero. Since owners could not obtain any net rent, the sites would become valueless on the market. From that point on, sites, in short, would be free. Further, since all rent would be siphoned off to the government, there would be no incentive for owners to charge any rent at all. Rent would be zero as well, and rentals would thus be free.

The first consequence of the single tax, then, is that no revenue would accrue from it. Far from supplying all the revenue of government, the single tax would yield no revenue at all. For if rents are zero, a 100 percent tax on rents will also yield nothing.

In our world, the only naturally free goods are those that are superabundant—like air. Goods that are scarce, and therefore the object of human action, command a price on the market. These goods are the ones that come into individual ownership. Land generally is abundant in relation to labor, but lands, particularly the better lands, are scarce relative to their possible uses.

All productive lands, therefore, command a price and earn rents. Compelling any economic goods to be free wreaks economic havoc. Specifically, a 100 percent tax means that land sites pass from individual ownership into a state of *no-ownership* as their price is forced to zero. Since no income can be earned from the sites, people will treat the sites as if they were free—as if they were superabundant. But we know they are not superabundant; they are highly scarce. The result is to introduce complete chaos in land sites. Specifically, the very scarce locations—those in high demand—will no longer command a higher price than the poorer sites.

Therefore, the market will no longer be able to insure that these locations will go to the most efficient bidders. Instead, everyone will rush to grab the best locations. A wild stampede will ensue for the choice downtown urban locations, which will now be no more expensive than lots in the most dilapidated suburbs. There will be great overcrowding in the downtown areas and underuse of outlying areas. As in other types of price ceilings, favoritism and “queuing up”

will settle allocation, instead of economic efficiency. In short, there will be land waste on a huge scale. Not only will there be no incentive for those in power to allocate the sites efficiently; there will also be no market rents and therefore no way that anyone could find out how to allocate sites properly.

In brief, the inevitable result of a single tax would be nothing less than *locational chaos*. And since location—land—must enter into the production of every good, chaos would be injected into every aspect of economic calculation. Waste in location leads to waste and misallocation of all productive resources.

The government, of course, might try to combat the disappearance of market rentals by levying an arbitrary assessment, declaring by fiat that every rent is “really” such and such, and taxing the site owner 100 percent of that amount. Such arbitrary decrees would bring in revenue, but they would only compound chaos further. Since the rental market would no longer exist, the government could never guess what the rent would be on the free market. Some users would be paying a tax of more than 100 percent of the true rent, and the use of these sites would be discouraged. Finally, private owners would still have no incentive to manage and allocate their sites efficiently. An arbitrary tax in the face of zero rentals is a long step toward replacing a state of no-ownership by government ownership.

In this situation, the government would undoubtedly try to bring order out of chaos by nationalizing (or municipalizing) land outright. *For in any economy, a useful resource cannot go unowned without chaos setting in; somebody must manage and own—either private individuals or the government.*

George himself expected that the single tax would “accomplish the same thing (as land nationalization) in a simpler, easier, and quieter way.”³ The hollow *form* of private ownership in land would remain, but the substance would have been drained away.

Government ownership of land would end one particular form of utter chaos brought about by the single tax, but it would add other great problems. It would raise all the problems created by any

³Henry George, *Progress and Poverty* (New York: Modern Library, 1916), p. 404.

government ownership, and on a very large scale.⁴ In short, there would be no incentive for government officials to allocate sites efficiently, and land would be allocated on the basis of politics and favoritism. Efficient allocation also would be impossible, due to the inherent defects of government operation; the absence of a profit and loss test, the conscription of initial capital, the coercion of revenue—the calculational chaos that government ownership and invasion of the free market create. Since land must be used in every productive activity, this chaos would permeate the entire economy. Socialization as a remedy for the evils of the single tax would be a jump from the frying pan into the fire.

Thus we see that private site owners, by allocating sites to productive uses, perform an extremely important service to all members of society. It is a service we would not do without, and the income to owners is but their return for this service.

The view that the site owner is nonproductive is a hangover from the old Smith-Ricardo doctrine that “productive” labor must be employed on material objects. The site owner does not solely transform matter into a more useful shape, as the builder does, though he may do that in addition. Lawyers and musicians provide intangible services, just as site owners perform a truly vital function although it may not be a directly physical one.

What about the maligned speculator, the holder of idle land? He, too, performs an important service—a subdivision of the general site-owner function. The speculator allocates sites over time. Even if a speculator reaps an “unearned increment” of capital value by holding land as its price rises, he can gain no such increment by keeping land idle. Why shouldn’t he use the land and earn rents *in addition* to his capital gain? Idle land by itself cannot benefit him. The reason he keeps the land apparently idle, therefore, is either that the land is still too poor to be used by current labor and capital goods, or that it is not yet clear *which* use for the site is best. The “speculative” landowner has the difficult job of deciding when to *commit* the site to a specific use. A wrong decision would waste the land. By waiting and judging, the speculative landowner picks the right moment for

⁴For a further discussion of these problems, see the author’s “Government in Business,” *The Freeman* (September 1956): 39–41.

bringing his land into use, and the right employment for the land. Land speculators, therefore, perform as vital a market function as their fellow site owners whose land is already in use. Land that seems idle to a passer-by probably is not idle in the eyes of its owner who is responsible for its use.

We have seen that the economic arguments for the single tax are fallacious at every important turn, and that the economic effects of a single tax would be disastrous indeed. But we should not neglect the *moral* arguments. Undoubtedly, the passion and fervor that have marked the single taxers through the years stems from their moral belief in the injustice of private ownership of land. Anyone who holds this belief will not be fully satisfied with explanations of the economic error and dangers of the single tax. He will continue to call for battle against what he believes to be a moral injustice.

The single taxers complain that site owners benefit unjustly by the rise and development of civilization. As population grows and the economy advances, site owners reap the benefit through a rise in land values. Is it justice for site owners who contribute little or nothing to this advance, to reap such handsome rewards?

All of us reap the benefits of the social division of labor, and the capital invested by our ancestors. We all gain from an expanding market—and the landlord is no exception. The landowner is not the only one who gains an “unearned increment” from these changes. All of us do. Is he, or are we, to be confiscated and taxed out of this happiness in the fruits of advancement? Who in “fairness” could receive the loot? Certainly it could not be given to our dead ancestors, who became our benefactors by investing in capital.⁵

⁵ “What gives value to land?,” asks Rev. Hugh O. Pentecost. And he answers: “The presence of population—the community. Then rent, or the value of land, morally belongs to the community.” What gives value to Mr. Pentecost’s preaching? The presence of population—salary, or the value of his preaching, morally belongs to the community. (Benjamin R. Tucker, *Instead of a Book* [New York: B.R. Tucker, 1893], p. 357)

Also see Leonard E. Read, “Unearned Riches,” in *On Freedom and Free Enterprise*, Mary Sennholz, ed. (Princeton, N.J.: D. Van Nostrand, 1956), pp. 188–95; and F.A. Harper, “The Greatest Economic Charity,” in *ibid.*, pp. 94–108.

As the supply of capital goods increases, land and labor become more scarce in relation to them, and therefore more productive. The incomes both of laborers and landowners increase as civilization expands. As a matter of fact, the landowner does not reap as much reward as the laborer from a progressing economy. For landowning is a business like any other, the return from which is regulated and minimized, in the long run, by competition. If land temporarily offers a higher rate of return, more people invest in it, thereby driving up its market price, or capital value, until the annual rate of return falls to the level of all other lines of business. The man who buys a site in mid-Manhattan now will earn no more than in any other business. He will only earn more if the market has not fully discounted future increases in rent through increasing the capital value of the land. In other words, he can only earn more if he can pick up a bargain. And he can only do this if, like other successful profit-makers, his foresight is better than that of his fellows.

Thus, the only landowners who reap special gains from progress are the ones more farsighted than their fellows—the ones who earn more than the usual rate of return by accurately predicting future developments. Is it bad for the rest of us, or is it good, that sites go into the hands of those men with the most foresight and knowledge of that site?

Among the specially farsighted is the original pioneer—the man who first found a new site and acquired ownership. Furthermore, in the act of clearing the site, fencing it, and the like, the pioneer inextricably mixes his labor with the original land. Confiscation of land would not only retroactively rob heroic men who cleared the wilderness, it would completely discourage any future pioneering efforts. Why should anyone find new sites and bring them into use when the gain will be confiscated? And how moral is this confiscation?

We have still to deal with the critical core of single tax moral theory—that no individual has the right to own value in land. Single taxers agree with libertarians that every individual has the natural right to own himself and the property he creates, and to transmit it to his heirs and assigns. They part company with libertarians in challenging the individual's right to claim property in original, God-given, land. Since it is God-given, they say, the land should belong to society as a whole, and each individual should have an equal right to

its use. They say, therefore, that appropriation of any land by an individual is immoral.

We can accept the premise that land is God-given, but we cannot therefore infer that it is given to society; it is given for the use of individual persons. Talents, health, beauty may all be said to be God-given, but obviously they are properties of individuals, not of society. Society cannot own anything. There is no entity called society; there are only interacting individuals. Ownership of property means control over use and the reaping of rewards from that use. When the State owns, or virtually owns, property, in no sense is society the owner. The government officials are the true owners, whatever the legal fiction adopted. Public ownership is only a fiction; actually, when the government owns anything, the mass of the public are in no sense owners. You or I cannot sell our "shares" in TVA, for example.

Any attempt by society to exercise the function of land ownership would mean land nationalization. Nationalization would not eliminate ownership by individuals; it would simply transfer this ownership from producers to bureaucrats.

Neither can any scheme exist where every individual will have "equal access" to the use of land. How could this possibly happen? How can a man in Timbuktu have as equal access as a New Yorker to Broadway and 42nd Street? The only way such equality could be enforced is for *no one* to use any land at all. But this would mean the end of the human race. The only type of equal access, or equal right to land, that makes any sense is precisely the equal access through private ownership and control on the free market—where every man can buy land at the market price.

The single taxpayer might still claim that individual ownership is immoral, even if he can find no plausible remedy. But he would be wrong. For his claim is self-contradictory. A man cannot produce *anything* without the cooperation of original land, if only as standing room. A man cannot produce anything by his labor alone. He must mix his labor with original land, as standing room and as raw materials to be transformed into more valuable products.

Man comes into the world with just himself and the world around him—with the land and natural resources given him by nature. He takes these resources and transforms them by his labor

and energy into goods more useful to man. Therefore, if an individual cannot own original land, neither can he in the same sense own the fruits of his labor. The single taxers cannot have their cake and eat it; they cannot permit a man to own the fruits of his labor while denying him ownership of the original materials which he uses and transforms. It is either one or the other. To own his product, a man must also own the material which was originally God-given, and now has been remolded by him. Now that his labor has been inextricably mixed with land, he cannot be deprived of one without being deprived of the other.

But if a producer is *not* entitled to the fruits of his labor, who is entitled to them? It is difficult to see why a newborn Pakistani baby should have a moral claim to ownership of a piece of Iowa land someone has just transformed into a wheat field. Property in its original state is unused and unowned. The single taxers may claim that the whole world really “owns” it, but if no one has yet used it, it is really owned by no one. The pioneer, the first user of this land, is the man who first brings this simple valueless thing into production and social use. It is difficult to see the morality of depriving him of ownership in favor of people who never got within a thousand miles of the land, and whose only claim to its title is the simple fact of being born—who may not even know of the existence of the property over which they are supposed to have claim.

Surely, the moral course is to grant ownership of land to the person who had the enterprise to bring it into use, the one who made the land productive. The moral issue will be even clearer if we consider the case of *animals*. Animals are “economic land”—since they are original nature-given resources. Yet will anyone deny full title to a horse to the man who finds and domesticates it? Or should every person in the world put in his claim to one two-billionth of the horse—or to one two-billionth of a government assessor’s estimate of the “original horse’s” worth? Yet this is precisely the single taxer’s ethic. In all cases of land, some man takes previously undomesticated, “wild” land, and “tames” it by putting it to productive use. Mixing his labor with land sites should give him just as clear a title as in the case of animals.

As two eminent French economists have written:

Nature has been appropriated by him (man) for his use; she has become his own; she is his property. This property is legitimate; it constitutes a right as sacred for man as is the free exercise of his faculties. Before him, there was scarcely anything but matter; since him, and by him, there is interchangeable wealth. The producer has left a fragment of his own person in the things which . . . may hence be regarded as a prolongation of the faculties of man acting upon external nature. As a free being he belongs to himself; that is to say the productive force, is himself; now, the cause, that is to say, the wealth produced, is still himself. Who shall dare contest title of ownership so clearly marked by the seal of his personality?⁶

⁶Louis Wolowski and Émile Levasseur, "Property" in *Lalor's Cyclopaedia of Political Science* (Chicago: M.B. Cary, 1884), p. 392.

The Value-Added Tax is Not the Answer

One of the great and striking facts of recent months is the growing resistance to further taxes on the part of the long-suffering American public. Every individual, business, or organization in American society acquires its revenue by the peaceful and voluntary sale of productive goods and services to the consumer, or by voluntary donations from people who wish to further whatever the group or organization is doing. Only government acquires its income by the coercive imposition of taxes. The welcome new element is the growing resistance to further tax exactions by the American people

In its endless quest for more and better booty, the government has contrived to tax everything it can find, and in countless ways. Its motto can almost be said to be “If it moves, tax it!”

Every income, every activity, every piece of property, every person in the land is subject to a battery of tax extortions, direct and indirect, visible and invisible. There is of course nothing new about this; what is new is that the accelerating drive of the government to tax has begun to run into determined resistance on the part of the American citizenry.

It is no secret that the income tax, the favorite of government for its ability to reach in and openly extract funds from everyone’s income, has reached its political limit in this country. The poor and the middle class are now taxed so heavily that the federal government, in particular, dares not try to extort even more ruinous levies.

The outraged taxpayer, after all, can easily become the outraged voter. How outraged the voters can be was brought home to the politicians last November, when locality after locality throughout the country rose in wrath to vote down proposed bond issues, even for the long-sacrosanct purpose of expanding public schools.

DEFEAT IN NEW YORK

The most heartening example—and one that can only give us all hope for a free America—was in New York City, where every leading politician of both parties, aided and abetted by a heavily financed and demagogic TV campaign, urged the voters to support a transportation bond issue. Yet the bond issue was overwhelmingly defeated—and this lesson for all of our politicians was a sharp and salutary one.

Finally, the property tax, the mainstay of local government as the income tax is at the federal level, is now generally acknowledged to have a devastating effect on the nation's housing. The property tax discourages improvements and investments in housing, has driven countless Americans out of their homes, and has led to spiraling tax abandonments in, for example, New York City, with a resulting deterioration of blighted slum housing.

Government, in short, has reached its tax limit; the people were finally saying an emphatic "No!" to any further rise in their tax burden. What was ever-encroaching government going to do? The nation's economists, most of whom are ever eager to serve as technicians for the expansion of state power, were at hand with an answer, a new rabbit out of the hat to save the day for Big Government.

They pointed out that the income tax and property tax were too evident, too visible, and that so are the generally hated sales tax and excise taxes on specific commodities. But how about a tax that remains totally *hidden*, that the consumer or average American cannot identify and pinpoint as the object of his wrath? It was this deliciously hidden quality that brought forth the rapt attention of the Nixon administration, the "Value Added Tax" (VAT).

The VAT is essentially a national sales tax, levied in proportion to the goods and services produced and sold. But its delightful concealment comes from the fact that the VAT is levied at each step of

the way in the production process: on farmer, manufacturer, jobber and wholesaler, and only slightly on the retailer.

The difference is that when a consumer pays a 7 percent sales tax on every purchase, his indignation rises and he points the finger of resentment at the politicians in charge of government; but if the 7 percent tax is hidden and paid by every firm rather than just at retail, the inevitably higher prices will be charged, *not* to the government where it belongs, but to grasping businessmen and avaricious trade unions.

While consumers, businessmen, and unions all blame each other for inflation like Kilkenny cats, Papa government is able to preserve its lofty moral purity, and to join in denouncing all of these groups for “causing inflation.”

It is now easy to see the enthusiasm of the federal government and its economic advisers for the new scheme for a VAT. It allows the government to extract many more funds from the public—to bring about higher prices, lower production, and lower incomes—and yet totally escape the blame, which can easily be loaded on business, unions, or the consumer as the particular administration sees fit.

The VAT is, in short, a looming gigantic swindle upon the American public, and it is therefore vitally important that it not pass. For if it does, the encroaching menace of Big Government will get another, and prolonged, lease on life.

One of the selling points for VAT is that it is supposed only to *replace* the property tax for its prime task of financing local public schools. Any relief of the onerous burden of the property tax sounds good to many Americans.

But anyone familiar with the history of government or taxation should know the trap in this sort of promise. For we should all know by now that taxes never go down. Government, in its insatiable quest for new funds, never relaxes its grip on any source of revenue.

You know and I know that the property tax, even if replaced for school financing, will not really go down; it will simply be shifted to other expensive boondoggles of local government. And we also know full well that the VAT will not long be limited to financing the schools; its vast potential (a 10 percent VAT would bring in about \$60 billion in revenue) is just too tempting for the government not

to use it to the hilt, and, in the famous words of New Dealer Harry Hopkins, “to tax and tax, spend and spend, elect and elect.”

Let us now delve more deeply into the specific nature of the VAT. A given percentage (the Nixon administration proposal is 3 percent) is levied, not on retail sales, but on the sales of each stage of production, with the business firm deducting from its liability the tax embodied in the purchases that he makes from previous stages. It is thus a sales tax hidden at each stage of production, from the farmer or miner down to the retailer.

A “REGRESSIVE” TAX

The most common criticism is that the VAT, like the sales tax, is a “regressive” tax, falling largely on the poor and the middle class, who pay a greater percentage of their income than the rich. This is a proper and important criticism, especially coming at a time when the middle class is already suffering from an excruciating tax burden.

The Nixon administration proposes to alleviate the burden on the poor by rebating the taxes through the income tax. While this may alleviate the tax burden on the poor, the middle class, which pays most of our taxes anyway, will hardly be benefited.

Furthermore, there is a more sinister element in the rebate plan: for some of the poor will get cash payments from the IRS, thereby bringing in the disastrous principle of the guaranteed annual income (FAP) through the back door.

But the VAT is in many ways far worse than a sales tax, apart from its hidden and clandestine nature. In the first place, the VAT advocates claim that since each firm and stage of production will pay in proportion to its “value added” to production, there will be no misallocation effects along the way.

But this ignores the fact that every business firm will be burdened by the cost of innumerable record keeping and collection for the government. The result will be an inexorable push of the business system toward “vertical mergers” and the reduction of competition.

Suppose, for example, that a crude-oil producer adds the value of \$1,000, and that an oil refiner adds another \$1,000, and suppose for simplicity that the VAT is 10 percent. Theoretically, it should make no difference if the firms are separate or “integrated”; in the former case, each firm would pay \$100 to the government; in the latter, the

integrated firm would pay \$200. But since this comforting theory ignores the substantial costs of record keeping and the collection, in practice if the crude-oil firm and the oil refiner were integrated into one firm, making only one payment, their costs would be lower.

VERTICAL MERGERS

Hence, vertical mergers will be induced by the VAT, after which the Antitrust Division of the Department of Justice would begin to clamor that the free market is producing “monopoly” and that the merger must be broken by government fiat.

The costs of record keeping and payment pose another grave problem for the market economy. Obviously, small firms are less able to bear these costs than big ones, and so the VAT will be a powerful burden on small business, and hamper it gravely in the competitive struggle. It is no wonder that some big businesses look with favor on the VAT!

There is another grave problem with VAT, a problem that the Western European countries which have adopted VAT are already struggling with.

In the VAT, every firm sends its invoices to the federal government, and gets credit for the VAT embodied in its invoices for the goods bought from other firms. The result is an irresistible opening for cheating, and in Western Europe there are special firms whose business is to write out fake invoices which can reduce the tax liabilities of their “customer.” Those businesses more willing to cheat will then be favored in the competitive struggle of the market.

A further crucial flaw exists in the VAT, a flaw which will bring much grief to our economic system. Most people assume that such a tax will simply be passed on in higher prices to the consumer. But the process is not that simple. While, in the long run, prices to consumers will undoubtedly rise, there will be two other important effects: a large short-run reduction in business profits, and a long-run fall in wage incomes.

The critical blow to profits, while perhaps only “short-run,” will take place at a time of business recession, when many firms and industries are suffering from low profits and even from business losses. The low-profit firms and industries will be severely hit by the imposition of VAT, and the result will be to cripple any possible

recovery and plunge us deeper into recession. Furthermore, new and creative firms, which usually begin small and with low profits, will be similarly crippled before they have scarcely begun.

The VAT will also have a severe, and so far unacknowledged, effect in aggravating unemployment, which is already at a high recession rate. The grievous impact on unemployment will be twofold. In the first place, any firm that buys, say, machinery, can deduct the embodied VAT from its own tax liability; but if it hires workers, it can make no such deduction. The result will be to spur over-mechanization and the firing of laborers.

Second, part of the long-run effect of VAT will be to lower the demand for labor and wage incomes; but since unions and the minimum-wage laws are able to keep wage rates up indefinitely, the impact will be a rise in unemployment. Thus, from two separate and compounding directions, VAT will aggravate an already serious unemployment problem.

Hence, the American public will pay a high price indeed for the clandestine nature of the VAT. We will be mulcted of a large and increasing amount of funds, extracted in a hidden but no less burdensome manner, just at a time when the government seemed to have reached the limit of the tax burden that the people will allow. It will be funds that will aggravate the burdens on the already long-suffering average middle-class American. And to top it off, the VAT will cripple profits; injure competition, small business, and new creative firms; raise prices; and greatly aggravate unemployment. It will pit consumers against business, and intensify conflicts within society.

One of Parkinson's justly famous "laws" is that, for government, "expenditure rises to meet income." If we allow the government to find and exploit new sources of tax funds, it will simply use those funds to spend more and more, and aggravate the already fearsome burden of Big Government on the American economy and the American citizen.

The only way to reduce Big Government is to cut its tax revenue, and to force it to stay within its more limited means. We must see to it that government has less tax funds to play with, not more. The first step on this road to lesser government and greater freedom is to see the VAT for the swindle that it is, and to send it down to defeat.

A Reply to Georgist Criticisms

Overall, it seems that one of the main Georgist fallacies is a confusion of economic and moral arguments for their program. Both types of arguments have their place, we can all agree, but the Georgists persist in using moral arguments in places where technical economic arguments are called for. In the strictly economic sense, land is not a unique asset in two main ways: (1) in the nature of “rent” and (2) in its being *capitalized* on the market.

Rent, as Frank A. Fetter brilliantly pointed out, is the hire-price of a unit of a durable asset. (We might even go further and say that rent is any unit-price of a good.) The selling-price of an asset on the market will be the capitalized value of its expected future rents: the capitalization to take place at the going rate of interest. The rate of interest is the price of “time,” and hence future earnings are discounted back to the present at this rate. A piece of land sells now at the discounted sum of its future rents. Similarly, *any* asset will sell at the capitalized value of its future earnings; and where these earnings accrue from hiring out, the rent selling-price relation will be the same. If Rembrandts are habitually rented out to museums, they will earn, say, per monthly rents; tuxedos will earn nightly rents, and so on. Admittedly, land differs from improvable capital because land is not replaceable, and therefore land earns ultimate rents. Or, to phrase it differently, a machine may earn rents (usually in self-

This article was written to clarify points made in “The Single Tax: Economic and Moral Implications” and distributed by the Foundation for Economic Education, Irvington-on-Hudson, New York, July 1957; included in this volume as chapter 29.

imputed earnings, but sometimes as being “hired out”) but they are *gross* rents, since it in turn must be produced by land and labor. Over the whole economy, then, the prices of capital goods are imputed backward to land and labor, until finally, the *net* incomes are earned by: land, time, labor (including entrepreneurship). However, *land* is also capitalized on the market and any increase in its prospective earnings raises its capital value. Hence, land’s net rents are also capitalized, and we have as ultimate net incomes only: labor (earning wages), time (earning interest) and profits (for entrepreneurial foresight) minus losses (for poor entrepreneurial judgment).

Rembrandts are similar to land because both are fixed in quantity (Rembrandts even more so) and because the same question arises as to markets and productivity. In short, does the Georgist believe that the rental value of Rembrandts (assume that all Rembrandts are rented out to museums) will continue to be the same, because the “market” will take care of things, even if the rental earnings from Rembrandts are taxed 100 percent? The Georgist has a curious conception of the market; he considers that the market is independent of the actions of an important part of its constituent individuals: the suppliers. On the contrary, there is no entity “market” which will take care of finding correct rents. If the shell of ownership is left and its contents confiscated by the State, there will be no incentive for owners (whether of land or Rembrandts) to allocate the assets to the highest bidders and most productive uses. There is no inconsistency when I point out that everyone will rush to grab the best locations if land were free; it would be the same if Rembrandts were suddenly declared free by the government (or if there were a 100 percent tax on their value). The point is that the *owners* will have no incentive to allocate. Rembrandts, which also earn net rents, are the same as land; the difference of course being that chaos in land sites is a far more serious thing than chaos in the price of Rembrandts.

The Georgist rejects the analogy of the Rembrandts because, he says, land value is created by the community. But what of Rembrandt values? Does not the increase in population, the development of the community, account for the increase in Rembrandt values? Will anyone pay much for Rembrandts in a primitive society? The Georgist rejects the application of the same “community” argument to the Reverend Pentecost because he served the community by his labor;

the theatrical costumer also is said to earn “wages.” The entrepreneur earns some wages for his labor, but he also earns profits for his foresight, and particularly interest for his advancement of capital, or time. In fact, many investors earn interest and profit without doing any “work” at all. Would Georgists then join the Marxists and confiscate such “unearned” interest? Why not?

It seems to me that Georgists give away their entire case when they graciously allow the landowners to keep 5–10 percent of their rent. This concedes that the landowner does perform *some* service, and if one concedes that he should keep some rent, where are we to draw the line? Why not let him keep 25 percent, or 50 percent, or 99 percent? Apparently, some Georgists would let the landowner keep the equivalent of a broker’s commission for distributing sites. But this again puts a very narrow “labor theory of value” on the owner’s service. The Rembrandt owner, for example, may hire a broker for 5–10 percent to sell or rent his paintings. Would Georgists then confiscate 90 percent of Rembrandt values?

The fact remains that just as the customer earns interest plus managerial wages plus profit, so will a landowner earn interest plus managerial wages plus profit (and “wages” can include wages of “decision-making”). The profit goes to better forecasters, and poorer ones will suffer losses.

Assessment may be done every day, but this does not make it any less arbitrary. Assessment where the entire rent market is abolished, as the single tax will effectively do, will be all the more impossible and arbitrary. Further, we learn that improvements which last beyond the owner’s life are considered part of the land by the Georgists and would be taxed accordingly. Things get worse and worse. This means that long-range improvements will be penalized by the single tax and will not be made. Thus, the single tax will tax long-range improvements as well as original site value.

Georgists may deny that they wish to force all land into production, but they imply this when they keep referring to currently idle land that should be used, and “idling” land that should be used for more valuable things. Nowhere have I seen Georgists say that any currently-used land should be rendered idle. Actually, there is no reason for speculators to abstain from earning rents on their land unless it were too poor to earn rents; earning rents does not prevent land values from rising. Further, if idle land earns no rents, then it has

no “rental value” to be taxed. The “rental value” is only the discounted sum of expected *future* rents, and is unrelated to current rents. Taxing them, therefore, will tax land *more* than 100 percent of its rental value.

I will not deal with what I consider grave fallacies in capital and production theory because they take us too far afield from the main problem. I will simply state that production takes place in many stages, and involves an ever-greater structure of capital—and that we would not be able to replace depreciating capital were it not for the growing structure of capital invested by our ancestors, improving our living standards. The “contemporaneous pipeline” is not only inventory; it is the gradual wearing down of fixed equipment and plant—which must be built ahead of time for use in advancing future consumption. Governments err in backward countries in not allowing security of private property and therefore the accumulation of savings.

Finally, if wages are OK because earned in the market place, then so are rents, and interest, and profits.

So much for the economical rebuttal. On the strictly ethical problem, I am willing to refer again to my essay. What I am advocating is appropriation of unused land by the first user—the “pioneer”—and I did not at all consider the problem of feudal land, which America fortunately escaped. I am no friend to feudal landownership based on conquest—but a discussion of this would have gotten us far afield. What I am arguing for in this essay is the ethical validity of absolute ownership by the pioneer and his heirs and assigns.

Some Georgists lay great emphasis on the *fixity* of land: the supply of land sites is fixed and so increased population raises land values; again, horses are not fixed in supply but land is. Rebuttal to this is in two parts: (a) land sites may be fixed, but so are Rembrandts. Why not confiscate Rembrandt value? (b) *physical* land may be fixed, but the *service* of supplying the land is *not*; it is the productive service by the site-owner that generates value, and it will be gravely discouraged by taxes on land values. A 100 percent tax on land values will generate chaos in land and therefore in production generally; a lesser degree of taxes will inflict lesser damage, but damage there most certainly will be.

Finally, many Georgists have, by inference, accused me of wishing to levy taxes on production, and have expounded on the beneficial effects that would flow once such taxes were lifted from the economy. I have great respect for many aspects of Henry George; and none more than for his passages on the benefits that would ensue once taxes were removed from production. Our difference is that I believe that land value taxation would also blight production, and, further, be unjust rather than the contrary. If we wish to establish justice and remove taxes from production, some other means than land value taxation will have to be found.

Section Five

Trade and Freedom

Freedom, Inequality, Primitivism, and the Division of Labor

I.

If men were like ants, there would be no interest in human freedom. If individual men, like ants, were uniform, interchangeable, devoid of specific personality traits of their own, then who would care whether they were free or not? Who, indeed, would care if they lived or died? The glory of the human race is the uniqueness of each individual, the fact that every person, though similar in many ways to others, possesses a completely individuated personality of his own. It is the fact of each person's uniqueness—the fact that no two people can be wholly interchangeable—that makes each and every man irreplaceable and that makes us care whether he lives or dies, whether he is happy or oppressed. And, finally, it is the fact that these unique personalities need freedom for their full development that constitutes one of the major arguments for a free society.

Perhaps a world exists somewhere where intelligent beings are fully formed in some sort of externally determined cages, with no need for internal learning or choices by the individual beings themselves. But man is necessarily in a different situation. Individual human beings are not born or fashioned with fully formed knowledge, values, goals, or personalities; they must each form their own values and goals, develop their personalities, and learn about themselves and the world around them. Every man must have freedom, must have the scope to form, test, and act upon his own choices, for any sort of development of his own personality to take place. He must, in short, be free in order that he may be fully human. In a

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sense, even the most frozen and totalitarian civilizations and societies have allowed at least a modicum of scope for individual choice and development. Even the most monolithic of despotisms have had to allow at least a bit of "space" for freedom of choice, if only within the interstices of societal rules. The freer the society, of course, the less has been the interference with individual actions, and the greater the scope for the development of each individual. The freer the society, then, the greater will be the variety and the diversity among men, for the more fully developed will be every man's uniquely individual personality. On the other hand, the more despotic the society, the more restrictions on the freedom of the individual, the more uniformity there will be among men and the less the diversity, and the less developed will be the unique personality of each and every man. In a profound sense, then, a despotic society prevents its members from being fully human.¹

If freedom is a necessary condition for the full development of the individual, it is by no means the only requirement. Society itself must be sufficiently developed. No one, for example, can become a creative physicist on a desert island or in a primitive society. For, as an economy grows, the range of choice open to the producer and to the consumer proceeds to multiply greatly.² Furthermore, only a society with a standard of living considerably higher than subsistence can afford to devote much of its resources to improving knowledge and to developing a myriad of goods and services above the level of brute subsistence. But there is another reason that full development of the creative powers of each individual cannot occur in a primitive or

¹On the interrelations between freedom, diversity, and the development of each individual, see the classic work of Wilhelm von Humboldt, *The Limits of State Action* (New York: Cambridge University Press, 1969). On freedom as necessary for the development of individuality, see also Josiah Warren, *Equitable Commerce* (New York: Burt Franklin, 1965) and Stephen Pearl Andrews, *The Science of Society* (London: C.W. Daniel, 1913).

²The economists Bauer and Yamey cogently define economic development as "the widening of the range of alternatives open to people as consumers and as producers." Peter T. Bauer and Basil S. Yamey, *The Economics of Underdeveloped Countries* (Cambridge: Cambridge University Press, 1957), p. 151.

undeveloped society, and that is the necessity for a wide-ranging division of labor.

No one can fully develop his powers in any direction without engaging in *specialization*. The primitive tribesman or peasant, bound to an endless round of different tasks in order to maintain himself, could have no time or resources available to pursue any particular interest to the full. He had no room to specialize, to develop whatever field he was best at or in which he was most interested. Two hundred years ago, Adam Smith pointed out that the developing division of labor is a key to the advance of any economy above the most primitive level. A necessary condition for any sort of developed economy, the division of labor is also requisite to the development of any sort of civilized society. The philosopher, the scientist, the builder, the merchant—none could develop these skills or functions if he had had no scope for specialization. Furthermore, no individual who does not live in a society enjoying a wide range of division of labor can possibly employ his powers to the fullest. He cannot concentrate his powers in a field or discipline and advance that discipline and his own mental faculties. Without the opportunity to specialize in whatever he can do best, no person can develop his powers to the full; no man, then, could be fully human.

While a continuing and advancing division of labor is needed for a developed economy and society, the extent of such development at any given time limits the degree of specialization that any given economy can have. There is, therefore, no room for a physicist or a computer engineer on a primitive island; these skills would be premature within the context of that existing economy. As Adam Smith put it, “the division of labor is limited by the extent of the market.” Economic and social development is therefore a mutually reinforcing process: the development of the market permits a wider division of labor, which in turn enables of further extension of the market.³

If the scope of the market and the extent of the division of labor are mutually reinforcing, so too are the division of labor and the diversity of individual interests and abilities among men. For just as an ever greater division of labor is needed to give full scope to the

³See George J. Stigler, “The Division of Labor is Limited by the Extent of the Market,” *Journal of Political Economy* (June 1951), p. 193.

abilities and powers of each individual, so does the existence of that very division depend upon the innate diversity of men. For there would be no scope at all for a division of labor if every person were uniform and interchangeable. (A further condition of the emergence of a division of labor is the variety of natural resources; specific land areas on the earth are also not interchangeable.) Furthermore, it soon became evident in the history of man that the market economy based on a division of labor was profoundly *cooperative*, and that such division enormously multiplied the productivity and hence the wealth of every person participating in the society. The economist Ludwig von Mises put the matter very clearly:

Historically division of labor originates in two facts of nature: the inequality of human abilities and the variety of the external conditions of human life on the earth. These two facts are really one: the diversity of Nature, which does not repeat itself but creates the universe in infinite, inexhaustible variety. . . .

These two conditions . . . are indeed such as almost to force the division of labor on mankind. Old and young, men and women cooperate by making appropriate use of their various abilities. Here also is the germ of the geographical division of labor; man goes to the hunt and woman to the spring to fetch water. Had the strength and abilities of all individuals and the external conditions of production been everywhere equal the idea of division of labor could never have arisen. . . . No social life could have arisen among men of equal natural capacity in a world which was geographically uniform. . . .

Once labor has been divided, the division itself exercises a differentiating influence. The fact that labor is divided makes possible further cultivation of individual talent and thus cooperation becomes more and more productive. Through cooperation men are able to achieve what would have been beyond them as individuals. . . .

The greater productivity of work under the division of labor is a unifying influence. It leads men to regard each other as comrades in a joint struggle for welfare, rather than as competitors in a struggle for existence.⁴

⁴Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (New Haven, Conn.: Yale University Press, 1951), pp. 292–95 and 303.

Freedom, then, is needed for the development of the individual, and such development also depends upon the extent of the division of labor and the height of the standard of living. The developed economy makes room for, and encourages, an enormously greater specialization and flowering of the powers of the individual than can a primitive economy, and the greater the degree of such development, the greater the scope for each individual.

If freedom and the growth of the market are each important for the development of each individual and, therefore, to the flowering of diversity and individual differences, then so is there a causal connection between freedom and economic growth. For it is precisely freedom, the absence or limitation of interpersonal restrictions or interference, that sets the stage for economic growth and hence of the market economy and the developed division of labor. The Industrial Revolution and the corollary and consequent economic growth of the West were a product of its relative freedom for enterprise, for invention and innovation, for mobility and the advancement of labor. Compared to societies in other times and places, eighteenth and nineteenth century Western Europe and the United States were marked by a far greater social and economic freedom—a freedom to move, invest, work, and produce—secure from much harassment and interference by government. Compared to the role of government elsewhere, its role in these centuries in the West was remarkably minimal.⁵

By allowing full scope for investment, mobility, the division of labor, creativity, and entrepreneurship, the free economy thereby creates the conditions for rapid economic development. It is freedom and the free market, as Adam Smith well pointed out, that develop the “wealth of nations.” Thus, freedom leads to economic development, and both of these conditions in turn multiply individual development and the unfolding of the powers of the individual man. In

⁵Historians have been reminding us in recent decades that neither in England nor in the United States did government confine itself strictly to the ideal of *laissez faire*. True enough; but we must compare this era to the role of government in earlier—and later—days to see the significance of the difference. Thus, cf. Karl Wittfogel, *Oriental Despotism* (New Haven, Conn.: Yale University Press, 1957).

two crucial ways, then, freedom is the root; only the free man can be fully individuated and, therefore, can be fully human.

If freedom leads to a widening division of labor, and the full scope of individual development, it leads also to a growing population. For just as the division of labor is limited by the extent of the market, so is total population limited by total production. One of the striking facts about the Industrial Revolution has been not only a great rise in the standard of living for everyone, but also the viability of such ample living standards for an enormously larger population. The land area of North America was able to support only a million or so Indians five hundred years ago, and that at a barely subsistence level. Even if we wished to eliminate the division of labor, we could not do so without literally wiping out the vast majority of the current world population.

II.

We conclude that freedom and its concomitant, the widening division of labor, are vital for the flowering of each individual, as well as the literal survival of the vast bulk of the world's population. It must give us great concern, then, that over the past two centuries mighty social movements have sprung up which have been dedicated, at their heart, to the stamping out of all human differences, of all individuality.

It has become apparent in recent years, for example, that the heart of the complex social philosophy of Marxism does not lie, as it seemed to in the 1930s and 40s, in Marxian economic doctrines: in the labor theory of value, in the familiar proposal for socialist state ownership of the means of production, and in the central planning of the economy and society. The economic theories and programs of Marxism are, to use a Marxian term, merely the elaborate "super-structure" erected on the inner core of Marxian aspiration. Consequently, many Marxists have, in recent decades, been willing to abandon the labor theory of value and even centralized socialist planning, as the Marxian economic theory has been increasingly abandoned and the practice of socialist planning shown to be unworkable. Similarly, the Marxists of the "New Left" in the United States and abroad have been willing to jettison socialist economic theory and practice. What they have not been willing to abandon is the philosophic heart of the Marxian ideal—not socialism or socialist planning, concerned

anyway with what is supposed to be a temporary “stage” of development, but communism itself. It is the communist ideal, the ultimate goal of Marxism, that excites the contemporary Marxist, that engages his most fervent passions. The New Left Marxist has no use for Soviet Russia because the Soviets have clearly relegated the communist ideal to the remotest possible future. The New Leftist admires Che Guevara, Fidel Castro, Mao Tse-Tung not simply because of their role as revolutionaries and guerrilla leaders, but more because of their repeated attempts to leap into communism as rapidly as possible.⁶

Karl Marx was vague and cloudy in describing the communist ideal, let alone the specific path for attaining it. But one essential feature is the eradication of the division of labor. Contrary to current belief, Marx’s now popular concept of “alienation” had little to do with a psychological sense of apartness or discontent. The heart of the concept was the individual’s “alienation” from the product of labor. A worker, for example, works in a steel mill. Obviously, he himself will consume little or none of the steel he produces; he earns the value of his product in the shape of a money-commodity, and then he happily uses that money to buy whatever he chooses from the products of other people. Thus, A produces steel, B eggs, C shoes, etc., and then each exchanges them for products of the others through the use of money. To Marx this phenomenon of the market and the division of labor was a radical evil, for it meant that no one consumed any of his own product. The steelworker thus became “alienated” from his steel, the shoemaker from his shoes, etc.

The proper response to this “problem,” it seems to me, is: “So what?” Why should anyone care about this sort of “alienation”? Surely the farmer, shoemaker, and steelworker are very happy to sell their product and exchange it for whatever products they desire; deprive them of this “alienation” and they would be most unhappy, as well as dying from starvation. For if the farmer were not allowed to produce more wheat or eggs than he himself consumes, or the shoemaker more

⁶The New Left, for example, ignores and scorns Marshall Tito despite his equally prominent role as Marxian revolutionary, guerrilla leader, and rebel against Soviet Russian dictation. The reason, as will be seen further below, is because Tito has pioneered in shifting from Marxism toward an individualistic philosophy and a market economy.

shoes than he can wear, or the steelworker more steel than he can use, it is clear that the great bulk of the population would rapidly starve and the rest be reduced to a primitive subsistence, with life “nasty, brutish, and short.”⁷ But to Marx this condition was the evil result of individualism and capitalism and had to be eradicated.

Furthermore, Marx was completely ignorant of the fact that each participant in the division of labor cooperates through the market economy, exchanging for each other's products and increasing the productivity and living standards of everyone. To Marx, *differences* between men and, therefore, any specialization in the division of labor, is a “contradiction,” and the communist goal is to replace that “contradiction” with harmony among all. This means that to the Marxist any individual differences, any diversity among men, are “contradictions” to be stamped out and replaced by the uniformity of the anthep. Friedrich Engels maintained that the emergence of the division of labor shattered the alleged classless harmony and uniformity of primitive society, and was responsible for the cleavage of society into separate and conflicting classes. Hence, for Marx and Engels, the division of labor must be eradicated in order to abolish class conflict and to usher in the ideal harmony of the “classless society,” the society of total uniformity.⁸

Thus, Marx foresees his communist deal only “after the enslaving subordination of individuals under division of labor, and therewith also the antithesis between mental and physical labor, has vanished.”⁹ To Marx the ideal communist society is one where, as Professor Gray puts it, “everyone must do everything.” According to Marx in *The German Ideology*,

In communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he

⁷It is difficult, of course, to see how intangible *services* could be produced at all without “alienation.” How can a teacher teach, for example, if he is not allowed to “alienate” his teaching services by providing them to his students?

⁸Thus, see Alexander Gray, *The Socialist Tradition* (London: Longmans, Green, 1947), pp. 306, 328.

⁹Karl Marx, *Critique of the Gotha Programme* (New York: International Publishers, 1938), p. 10.

wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, shepherd or critic.¹⁰

And the Marxist, August Bebel, consistently applied this dilettantish notion to the role of women:

At one moment a practical worker in some industry she is in the next hour educator, teacher, nurse; in the third part of the day she exercises some art or cultivates a science; and in the fourth part she fulfills some administrative function.¹¹

The concept of the *commune* in socialist thought takes on its central importance precisely as a means of eradicating individual differences. It is not just that the commune owns all the means of production among its members. Crucial to the communal ideal is that every man takes on every function, either all at once or in rapid rotation. Obviously, the commune has to subsist on no more than a primitive level, with only a few common tasks, for this ideal to be achieved. Hence the New Left commune, where every person is supposed to take turns equally at every task; again, specialization is eradicated, and no one can develop his powers to the full. Hence the current admiration for Cuba, which has attempted to stress “moral” rather than economic incentives in production, and which has established communes on the Isle of Pines. Hence the admiration of Mao, who has attempted to establish uniform urban and rural communes, and who recently sent several million students into permanent exile into the frontier agricultural areas, in order to eliminate the “contradiction between intellectual and physical labor.”¹² Indeed, at the

¹⁰Quoted in Gray, *The Socialist Tradition*, p. 328. Gray amusingly adds: “A short weekend on a farm might have convinced Marx that the cattle themselves might have some objection to being reared in this casual manner, in the evening.”

¹¹August Bebel, in *Women and Socialism*. Quoted in Mises, *Socialism*, p. 190n.

¹²A recent news report disclosed that China has now softened its assault on intellectual labor. The policy of interchanging students and workers seems to have worked badly, and it has been found that “a lack of teachers and of

heart of the split between Russia and China is Russia's virtual abandonment of the communist ideal in the face of China's "fundamentalist" devotion to the original creed. The shared devotion to the commune also accounts for the similarities between the New Left, the Utopian socialists of the nineteenth century,¹³ and the communist anarchists, a wing of anarchism that has always shared the communal ideal with the Marxists.¹⁴

The communist would deny that his ideal society would suppress the personality of every man. On the contrary, freed from the confines of the division of labor, each person would fully develop all of his powers in every direction. Every man would be fully rounded in all spheres of life and work. As Engels put it in his *Anti-Dühring*, communism would give "each individual the opportunity to develop and exercise all his faculties, physical and mental, in all direction[s] . . ." ¹⁵ And Lenin wrote in 1920 of the "abolition of the division of labor among people . . . the education, schooling and training of people with *an all-round development and an all-round training, people able to do everything*. Communism is marching and must march toward this goal, and *will reach it*. . . ." ¹⁶

This absurd ideal—of the man "able to do everything"—is only viable if (a) everyone does everything very badly, or (b) there are only a very few things to do, or (c) everyone is miraculously transformed into a superman. Professor Mises aptly notes that the ideal communist man is the dilettante, the man who knows a little of everything and does nothing well. For how can he develop *any* of his

technical training has hampered industrial development and production in recent years." Furthermore, "workers appear often to have been not tempered but softened by their exposure to a more sedentary life as many students, rather than finding life on the farm rewarding, fled China or killed themselves." Lee Lescage, "China Softens Attitude on Profs. School Policy," *The Washington Post* (July 23, 1970), p. A12.

¹³On the Utopian socialists, see Mises, *Socialism*, p. 168.

¹⁴It is probable that Mao's particular devotion to the communist ideal was influenced by his having been an anarchist before becoming a Marxist.

¹⁵Quoted in Gray, *The Socialist Tradition*, p. 328.

¹⁶Italics as Lenin's. V.I. Lenin, *Left-Wing Communism: An Infantile Disorder* (New York: International Publishers, 1940), p. 34.

powers and faculties if he is prevented from developing any one of them to any sustained extent? As Mises says of Bebel's Utopia,

Art and science are relegated to leisure hours. In this way, thinks Bebel, the society of the future "will possess scientists and artists of all kinds in countless numbers." These, according to their several inclinations, will pursue their studies and their arts in their spare time. . . . All mental work he regards as mere dilettantism. . . . But nevertheless we must inquire whether under these conditions the mind would be able to create that freedom without which it cannot exist.

Obviously all artistic and scientific work which demands time, travel, technical education and great material expenditure, would be quite out of the question.¹⁷

Every person's time and energy on the earth are necessarily limited; hence, in order to develop any of his faculties to the full, he must specialize and concentrate on some rather than others. As Gray writes,

That each individual should have the opportunity of developing *all* his faculties, physical *and* mental, in *all* directions, is a dream which will cheer the vision only of the simple-minded, oblivious of the restrictions imposed by the narrow limits of human life. For life is a series of acts of choice, and each choice is at the same time a renunciation. . . .

Even the inhabitant of Engels' future fairyland will have to decide sooner or later whether he wishes to be Archbishop of Canterbury or First Sea Lord, whether he should seek to excel as a violinist or as a pugilist, whether he should elect to know all about Chinese literature or about the hidden pages in the life of the mackerel.¹⁸

Of course, the only way to resolve this dilemma is to fantasize that the New Communist Man will be a superman. The Marxist, Karl Kautsky, asserted that in the future society "a new type of man will arise . . . a superman . . . an exalted man." Leon Trotsky prophesied that under communism

¹⁷Mises, *Socialism*, p. 190.

¹⁸Gray, *The Socialist Tradition*, p. 328.

man will become incomparably stronger, wiser, finer. His body more harmonious, his movements more rhythmical, his voice more musical. . . . The human average will rise to the level of an Aristotle, a Goethe, a Marx. Above these other heights new peaks will arise.¹⁹

In recent years, communists have intensified their efforts to end the division of labor and reduce all individuals to uniformity. Fidel Castro's attempts to "build Communism" in the Isle of Pines, and Mao Tse-Tung's Cultural Revolution, have been echoed in miniature by the American New Left in numerous attempts to form hippies' communes and to create organizational "collectives" in which everyone does everything without benefit of specialization.²⁰ In contrast, Yugoslavia has been the quiet despair of the communist movement by moving rapidly in the opposite direction—toward every-increasing freedom, individuality, and free-market operations—and has proved influential in leading the other "communist" countries of Eastern Europe (notably, Hungary and Czechoslovakia) in the same direction.²¹

¹⁹Quoted in Mises, *Socialism*, p. 164.

²⁰Thus, one of the major criticisms of the New Left journal, *The Guardian*, by its rebellious split-off, *The Liberated Guardian*, was that the former functioned in the same way as any "bourgeois" magazine, with specialized editors, typists, copyreaders, business staff, etc. The latter is run by a "collective" in which, assertedly, everyone does every task without specialization. The same criticism, along with the same solution, was applied by the women's caucus which confiscated the New Left weekly, *Rat*. Some of the "Women's Liberation" groups have been so extreme in the drive to extirpate individuality as to refuse to identify the names of individual members, writers, or spokesmen.

²¹Thus, a shock to orthodox communists throughout the world was the 1958 Program of the League of Communists of Yugoslavia, which declared that the individual's "personal interest . . . is the moving force of our social development. . . . The objectivity of the category of personal interest lies in the fact that [Yugoslavia] socialism . . . cannot subject the personal happiness of man to any ulterior 'goals' or 'higher aims,' for the highest aims of socialism is the personal happiness of man." From *Kommunist* (Belgrade), August 8, 1963. Quoted in R.V. Burks, "Yugoslavia: Has Tito Gone Bourgeois?" *East Europe* (August 1965): 2–14. Also see T. Peter Svennevig, "The Ideology of the Yugoslav Heretics," *Social Research* (Spring, 1960): 39–48.

III.

One way of gauging the extent of “harmonious” development of all of the individual’s powers in the absence of specialization is to consider what actually happened during primitive or preindustrial eras. And, indeed, many socialists and other opponents of the Industrial Revolution exalt the primitive and preindustrial periods as a golden age of harmony, community, and social belonging—a peaceful and happy society destroyed by the development of individualism, the Industrial Revolution, and the market economy. In their exaltation of the primitive and the preindustrial, the socialists were perfectly anticipated by the reactionaries of the Romantic movement, those men who longed to roll back the tide of progress, individualism, and industry, and return to the supposed golden age of the preindustrial era. The New Left, in particular, also emphasizes a condemnation of technology and the division of labor, as well as a desire to “return to the earth” and an exaltation of the commune and the “tribe.” As John W. Aldridge perceptively points out, the current New Left virtually constitutes a generational tribe that exhibits all the characteristics of a uniform and interchangeable herd, with little or no individuality among its members.²²

Similarly, the early nineteenth century German reactionary, Adam Müller, denounced the

vicious tendency to divide labor in all branches of private industry. . . . [The] division of labor in large cities or industrial or mining provinces cuts up man, the completely free man, into wheels, rollers, spokes, shafts, etc., forces on him an utterly one-sided scope in the already one-sided field of the provisioning of one single want.²³

The leading French conservatives of the early nineteenth century, Bonald and de Maistre, who idealized the feudal order,

For attacks by orthodox communists, see Shih Tung-Hsiang, “The Degeneration of the Yugoslav Economy Owned by the Whole People,” *Peking Review* (June 12, 1964): 11–16; and “Peaceful Transition from Socialism to Capitalism?” *Monthly Review* (March 1964): 569–90.

²²John W. Aldridge, *In the Country of the Young* (New York: Harper & Row, 1970).

²³Quoted in Mises, *Socialism*, p. 304.

denounced the disruption by individualism of the pre-existing social order and social cohesion.²⁴ The contemporary French reactionary, Jacques Ellul, in *The Technological Society*, a book much in favor on the New Left, condemns “our dehumanized factories, our unsatisfied senses . . . our estrangement from nature.” In the Middle Ages, in contrast, claims Ellul, “Man sought open spaces . . . the possibility of moving about . . . of not constantly colliding with other people.”²⁵ In the meanwhile, on the socialist side, the economic historian Karl Polanyi’s influential *The Great Transformation* makes this thesis of the disruption of a previous social harmony by individualism, the market economy, and the division of labor the central theme of the book.

For its part, the worship of the primitive is a logical extension of the worship of the preindustrial. This worship by modern sophisticated intellectuals ranges from Rousseau’s “noble savage” and the lionizing of that creature by the Romantic movement, all the way to the adoration of the Black Panthers by white intellectuals.²⁶ Whatever other pathology the worship of the primitive reflects, a basic part of it is a deep-seated hatred of individual diversity. Obviously, the more primitive and the less civilized a society, the less diverse and individuated it can be.²⁷ Also part of this primitivism reflects a hatred for the intellect and its works, since the flowering of reason and intellection leads to diversity and inequality of individual achievement.

For the individual to advance and develop, reason and the intellect must be *active*, it must embody the individual’s mind working upon and transforming the materials of reality. From the time of

²⁴On the strong influence of these reactionary thinkers on the anti-individualism of nineteenth century Marxists and socialists, see in particular Leon Bramson, *The Political Context of Sociology* (Princeton, N.J.: Princeton University Press, 1961), pp. 12–16 and *passim*.

²⁵See the critique of Ellul in Charles Silberman, *The Myths of Automation* (New York: Harper & Row, 1966), pp. 104–05.

²⁶Thus, see the perceptively satiric article by Tom Wolfe, “Radical Chic: That Party at Lenny’s,” *New York* (June 8, 1970).

²⁷This worship of the primitive permeates Polanyi’s book, which at one point seriously applies the term “noble savage” to the Kaffirs of South Africa. Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957), p. 157.

Aristotle, the classical philosophy presented man as only fulfilling himself, his nature, and his personality through purposive action upon the world. It is from such rational and purposive action that the works of civilization have developed. In contrast, the Romantic movement has always exalted the passivity of the child who, necessarily ignorant and immature, only reacts passively to his environment rather than acts to change it. This tendency to exalt passivity and the young, and to denigrate intellect, has reached its present embodiment in the New Left, which worships both youth *per se* and a passive attitude of ignorant and purposeless spontaneity. The passivity of the New Left, its wish to live simply and in “harmony” with “the earth” and the alleged rhythms of nature, harks back completely to the Rousseauist Romantic movement. Like the Romantic movement, it is a conscious rejection of civilization and differentiated men on behalf of the primitive, the ignorant, the herd-like “tribe.”²⁸

If reason, purpose, and action are to be spurned, then what replace them in the Romantic pantheon are unanalyzed, spontaneous “feelings.” And since the range of feelings is relatively small compared to intellectual achievements, and in any case is not objectively known to another person, the emphasis on feelings is another way to iron out diversity and inequality among individuals.

Irving Babbitt, a keen critic of Romanticism, wrote about the Romantic movement:

The whole movement is filled with the praise of ignorance and of those who still enjoy its inappreciable advantages—the savage, the peasant and above all the child. The Rousseauist may indeed be said to have discovered the poetry of childhood . . . but at what would seem at times a rather heavy sacrifice of rationality. Rather than consent to have the bloom taken off things by analysis one should, as Coleridge tells us, sink back to the devout state of child-like wonder. However, to grow ethically is not to sink back but to struggle painfully forward. To affirm the contrary is to proclaim one’s inability to mature. . . . [The Romantic] is ready to assert

²⁸Both the passive and the tribal aspects of New Left culture were embodied in its ideal of the “Woodstock Nation,” in which hundreds of thousands of herd-like, undifferentiated youth wallowed passively in the mud listening to their tribal ritual music.

that what comes to the child spontaneously is superior to the deliberate moral effort of the mature man. The speeches of all the sages are, according to Maeterlinck, outweighed by the unconscious wisdom of the passing child.²⁹

Another perceptive critique of Romanticism and primitivism was written by Ludwig von Mises. He notes that “the whole tribe of romantics” have denounced specialization and the division of labor. “For them the man of the past who developed his powers ‘harmoniously’ is the ideal: an ideal which alas no longer inspires our degenerate age. They recommend retrogression in the division of labor.” with the socialists surpassing their fellow Romantics in this regard.³⁰ But are primitives or preindustrial men privileged to develop themselves freely and harmoniously? Mises answers:

It is futile to look for the harmoniously developed man at the outset of economic evolution. The almost self-sufficient economic subject as we know him in the solitary peasant of remote valleys shows none of that noble, harmonious development of body, mind, and feeling which the romantics ascribe to him. Civilization is a product of leisure and the peace of mind that only the division of labor can make possible. Nothing is more false than to assume that man first appeared in history with an independent individuality and that only during the evolution [of society] . . . did he lose . . . his spiritual independence. All history, evidence and observation of the lives of primitive peoples is directly contrary to this view. Primitive man lacks all individuality in our sense. Two South Sea Islanders resemble each other far more closely than two twentieth-century Londoners. Personality was not bestowed upon man at the outset. It has been acquired in the course of evolution of society.³¹

Or we may note Charles Silberman’s critique of Jacques Ellul’s rhapsodies on the “traditional rhythms of life and nature” lived by preindustrial man, as compared to “dehumanized factories . . . our estrangement from nature.” Silberman asks:

²⁹Irving Babbitt, *Rousseau and Romanticism* (New York: Meridian Books, 1955), pp. 53–54. The New Left’s emphasis on passivity, primitivism, the irrational, and the dissolution of individuality may account for the current popularity of Taoist and Buddhist philosophy. See *ibid.*, pp. 297ff.

³⁰Mises, *Socialism*, p. 304.

³¹*Ibid.*, p. 305.

But with what shall we contrast this dehumanized world? The beautiful, harmonious life being lived by, say, the Chinese or Vietnamese peasant woman, who works in the fields close to nature, for twelve hours a day—roughly the conditions under which the great bulk women (and men) have worked . . . through all of human history? For this is the condition that Ellul idealizes.

And, as for Ellul's paean to the Middle Ages as being mobile, spacious, and uncrowded:

This would have been startling news to the medieval peasant, who lived with his wife and children, other relatives, and probably animals as well in a one-room thatched cottage. And even for the nobility, was there really more possibility of "moving about" in the Middle Ages, when travel was by foot or hoof, than today, when steelworkers spend sabbaticals in Europe?³²

The savage is supposed not only to be "noble" but also supremely happy. From the Rousseauans to what Erich Fromm has called "the infantile Paradise" of Norman O. Brown and Herbert Marcuse, the Romantics have extolled the happiness yielded by the spontaneous and the childlike. To Aristotle and the classic philosophers, happiness was acting in accordance with man's unique and rational nature. To Marcuse, any purposive, rational action is by definition "repressive," to which he contrasts the "liberated" state of spontaneous play. Aside from the universal destitution that the proposed abolition of work would bring, the result would be a profound unhappiness, for no individual would be able to fulfill himself, his individuality would largely disappear, for in a world of "polymorphous" play everyone would be virtually alike.

If we consider the supposed happiness of primitive man, we must also consider that his life was, in the famous phrase of Hobbes, "nasty, brutish, and short." There were few medical aids against disease; there were none against famine, for in a world cut off from interregional markets and barely above subsistence any check to the local food supply will decimate the population. Fulfilling the dreams of Romantics, the primitive tribe is a passive creature of its given environment and has no means for acting to overcome and transform it. Hence, when the local food supply within an area is depleted, the "happy-go-lucky" tribe dies *en masse*.

³²Silberman, *The Myths of Automation*, pp. 104–05.

Furthermore, we must realize that the primitive faces a world which he cannot understand, since he has not engaged in much of a rational, scientific inquiry into its workings. We know what a thunderstorm is, and therefore take rational measures against it; but the savage does not know, and therefore surmises that the God of Thunder is displeased with him and must be propitiated with sacrifices and votive offerings. Since the savage has only a limited concept of a world knit together by natural law (a concept which employs reason and science), he believes that the world is governed by a host of capricious spirits and demons, each of which can only be propitiated by ritual or magic, and by a priest-craft of witch doctors who specialize in their propitiation.³³ The renaissance of astrology and similar mystic creeds on the New Left marks a reversion to such primitive forms of magic. So fearful is the savage, so bound is he by irrational taboo and by the custom of his tribe, that he cannot develop his individuality.

If tribal custom crippled and repressed the development of each individual, then so too did the various caste systems and networks of restriction and coercion in preindustrial societies that forced everyone to follow the hereditary footsteps of his father's occupation. Each child knew from birth that he was doomed to tread where his ancestors had gone before him, regardless of ability or inclination to the contrary. The "social harmony," the "sense of belonging," supplied by mercantilism, by the guilds, or by the caste system, provided such contentment that its members left the throes of the system when given an opportunity. Given the freedom to choose, the tribesmen abandon the bosom of their tribe to come to the freer, "atomistic" cities looking for jobs and opportunity. It is curious, in fact, that those Romantics who yearn to restore the mythical golden age of caste and status refuse to allow each individual the freedom to

³³Neither is the magic used by primitive tribes any evidence of superior, "idealistic," as opposed to this worldly, "materialistic," ends. On the contrary, the magic rites were unsound and erroneous means *by which* the tribes hoped to attain such materialistic ends as a good harvest, rainfall, etc. Thus, the Cargo Cult of New Guinea, on observing Europeans obtaining food from overseas by sending away scraps of paper, imitated the Europeans by writing ritualistic phrases on slips of paper and sending them out to sea, after which they waited for cargoes from overseas. Cf. Ludwig von Mises, *Epistemological Problems of Economics* (Princeton, N.J.: D. Van Nostrand, 1960), pp. 62–66, 102–05.

choose between market on the one hand, or caste and tribal commune on the other. Invariably, the new golden age has to be imposed by coercion.

Is it, indeed, a coincidence that the natives of undeveloped countries, when given a chance, invariably abandon their "folk culture" on behalf of Western ways, living standards, and "Coca-Colaization?" Within a few years, for example, the people of Japan were delighted to abandon their centuries-old traditional culture and folkways, and turn to the material achievements and market economy of the West. Primitive tribes, too, given a chance, are eager to differentiate and develop a market economy, to shed their stagnant "harmony" and replace their magic by knowledge of discovered law. The eminent anthropologist, Bronislaw Malinowski, pointed out that primitives allow magic only to cover those areas of nature of which they are ignorant; in those areas where they have come to understand the natural processes at work, magic is, quite sensibly, not employed.³⁴

A particularly striking example of the eager development of a pervasive market economy among primitive tribesmen is the largely unheralded case of West Africa.³⁵ And Bernard Siegel has pointed out that when, as among the Penajachel of Guatemala, a primitive society becomes large and technologically and societally complex, a market economy inevitably accompanies this growth, replete with specialization, competition, cash purchases, demand and supply, prices and costs, etc.³⁶

³⁴Bronislaw Malinowski, *Magic, Science, Religion and Other Essays* (New York: Doubleday Anchor Books, 1955), pp. 27–31. Also see Mises, *Epistemological Problems of Economics*.

³⁵See the inspiring discussion in Peter T. Bauer, *West African Trade* (Cambridge: Cambridge University Press, 1954).

³⁶Bernard J. Siegel, "Review of Melville J. Herskovits, *Economic Anthropology*," *American Economic Review* (June 1953): 402. On developing individualism among the Pondo of South Africa, see Bauer and Yamey, *The Economics of Underdeveloped Countries*, p. 67n. Also see Raymond Firth, *Human Types* (New York: Mentor Books, 1958), p. 122; Sol Tax, *Penny Capitalism: A Guatemalan Indian Economy* (Washington, D.C., 1953); and Raymond Firth and Basil S. Yamey, eds., *Capital, Saving and Credit in Peasant Societies* (Chicago: Aldine, 1963).

There is thus ample evidence that even primitive tribesmen themselves are not fond of their primitivism and take the earliest opportunity to escape from it; the main stronghold of love for primitivism seems to rest among the decidedly non-primitive Romantic intellectuals.

Another primitivistic institution that has been hailed by many social scientists is the system of the "extended family," a harmony and status supposedly ruptured by the individualistic "nuclear family" of the modern West. Yet the extended family system has been responsible for crippling the creative and productive individual as well as repressing economic development. Thus, West African development has been impeded by the extended family concept that, if one man prospers, he is duty bound to share this bounty with a host of relatives, thus draining off the reward for his productivity and crippling his incentive to succeed, while encouraging the relatives to live idly on the family dole. And neither do the productive members of the tribe seem very happy about this supposedly harmonious societal bond. Professor Bauer points out that

many admit in private discussion that they dread these extensive obligations. . . . The fear of the obligations of the family system is partly responsible for the widespread use of textiles and trinkets as outlets for savings, in preference to more productive forms of investment which are more likely to attract the attention of relatives.

And many Africans distrust banks, "fearing that they may disclose the size of their accounts to members of their families. They, therefore, prefer to keep their savings under the fireplace or buried in the ground."³⁷

³⁷Bauer, *West African Trade*, p. 8. Also see Bauer and Yamey, *The Economics of Underdeveloped Countries*, pp. 64–67. Similarly, Professor S. Herbert Frankel reports on how West Africans habitually wait at entrances of banks to fall upon their relatives to demand money as they leave. Any man who accumulates money must go to great lengths to deceive his relatives on his actual status. Cited in Helmut Schoeck, *Envy: A Theory of Social Behaviour* (New York: Harcourt, Brace & World, 1970), pp. 59–60. On the responsiveness of African natives to market economic incentives, see (in addition to Bauer, (West African Trade) Peter Kilby, "African Labour Productivity Reconsidered," *Economic Journal* (June, 1961), pp. 273–91.

In fact, the primitive community, far from being happy, harmonious, and idyllic, is much more likely to be ridden by mutual suspicion and envy of the more successful or better-favored, an envy so pervasive as to cripple, by the fear of its presence, all personal or general economic development. The German sociologist Helmut Schoeck, in his important recent work on Envy, cites numerous studies of this pervasive crippling effect. Thus the anthropologist Clyde Kluckhohn found among the Navaho the absence of any concept of "personal success" or "personal achievement"; and such success was automatically attributed to exploitation of others, and, therefore, the more prosperous Navaho Indian feels himself under constant social pressure to give his money away. Allan Holmberg found that the Siriono Indian of Bolivia eats alone at night because, if he eats by day, a crowd gathers around him to stare in envious hatred. The result among the Siriono is that, in reaction to this pervasive pressure, no one will voluntarily share food with anybody. Sol Tax found that envy and fear of envy in "a small community where all neighbors watch and where all are neighbors" accounted for the unprogressiveness, the slowness of change toward a productive economy among the Indians of Guatemala. And when a tribe of Pueblo Indians showed the beginnings of specialization and the division of labor, the envy of their fellow tribesmen impelled them to take measures to end this process, including physical destruction of the property of those who seemed in any way better off than their fellows.

Oscar Lewis discovered an extremely pervasive fear of the envy of others in a Mexican Indian village, a fear producing intense secretiveness. Wrote Lewis:

The man who speaks little, keeps his affairs to himself, and maintains some distance between himself and others has less chance of creating enemies or of being criticized or envied. A man does not generally discuss his plans to buy or sell or take a trip.³⁸

³⁸The works cited are Clyde Kluckhohn, *The Navaho* (Cambridge, Mass.: Harvard University Press, 1946) and *Navaho Witchcraft* (1944; Boston: Beacon Press, 1967); Allan R. Holmberg, *Nomads of the Lon Bow: The Siriono of Eastern Bolivia* (Washington, D.C.: U.S. Government Printing Office, 1950); Sol Tax, "Changing Consumption in Indian Guatemala," *Economic Development and Cultural Change* (1957); and Oscar Lewis, *Life in a Mexican Village: Tepoztlan Restudied* (Urbana: University of Illinois Press, 1951). See Schoeck, *Envy*, pp. 26–61.

Professor Schoeck comments:

it is difficult to envisage what it means for the economic and technical development of a community when, almost automatically and as a matter of principle, the future dimension is banned from human intercourse and conversation, when it cannot even be discussed. Ubiquitous envy, fear of it and those who harbor it, cuts off such people from any kind of communal action directed towards the future. . . . All striving, all preparation and planning for the future can be undertaken only by socially fragmented, secretive beings.³⁹

Furthermore, in this Mexican village no one will warn or tell anyone else of imminent danger to the other's property; there is no sense of human social solidarity whatsoever.

Among the Indians of Aritama in Colombia, the Reichel-Dolmatoffs reported:

Every individual lives in constant fear of the magical aggression of others, and the general social atmosphere in the village is one of mutual suspicion, of latent danger, and hidden hostility, which pervade every aspect of life. The most immediate reason for magical aggression is envy. Anything that might be interpreted as a personal advantage over others is envied: good health, economic assets, good physical appearance, popularity, a harmonious family life, a new dress. All these and other aspects imply prestige, and with it power and authority over others. Aggressive magic is, therefore, intended to prevent or to destroy this power and to act as a leveling force.⁴⁰

The Reichel-Dolmatoffs also noted that if one member of a group in Aritama should work faster or better than his fellows, his place of work is marked with a cross before he arrives the next morning, and his envious colleagues pray to God to make this more able worker slow and tired.

Finally, Watson and Samora found that the major reason for the failure of a group of lower-class Spanish-speaking citizens of a mountain township in southern Colorado to rise into parity with the

³⁹Clyde Kluckhohn, *The Navaho and Navaho Witchcraft*, p. 50.

⁴⁰From Gerardo and Alicia Reichel-Dolmatoff, *The People of Aritama: The Cultural Personality of a Colombian Mestizo Village* (Chicago: University of Chicago Press, 1961), p. 396. Quoted in Schoeck, *Envy*, pp. 51–52.

upper-class Anglo community, was the bitter envy of the Spanish group toward any of their number who managed to rise upward. Anyone who works his way upward is regarded as a man “who has sold himself to the Anglos,” “who has climbed on the backs of his people.”⁴¹

The anthropologist Eric Wolf has even coined the term “institutionalized envy” to describe such pervasive institutions, including the practice and fear of black magic in these primitive societies.⁴² Schoeck notes:

Institutionalized envy . . . or the ubiquitous fear of it, means that there is little possibility of individual economic advancement and no contact with the outside world through which the community might hope to progress. No one dares to show anything that might lead people to think he was better off. Innovations are unlikely. Agricultural methods remain traditional and primitive, to the detriment of the whole village, because every deviation from previous practice comes up against the limitations set by envy.⁴³

And Schoeck aptly concludes:

There is nothing to be seen here of the close community which allegedly exists among primitive peoples in pre-affluent times—the poorer, it is held, the greater the sense of community. Sociological theory would have avoided many errors if those phenomena had been properly observed and evaluated a century ago. The myth of a golden age, when social harmony prevailed because each man had about as little as the next one, the warm and generous community spirit of simple societies, was indeed for the most part just a myth, and social scientists should have known better than to fashion out of it a set of utopian standards with which to criticize their own societies.⁴⁴

⁴¹James B. Watson and Julian Samora, “Subordinate Leadership in a Bicultural Community: An Analysis,” *American Sociological Review* 19, no. 4 (August 1954): 413–21.

⁴²Eric R. Wolf, “Types of Latin American Peasantry: A Preliminary Discussion,” *American Anthropologist* 57, no. 3 (June 1955): 460.

⁴³Reichel-Dolmatoff, *The People of Aritama*, quoted in Schoeck, *Envy*, p. 47.

⁴⁴*Ibid.*, p. 31.

In sum, Ludwig von Mises's strictures against Romanticism do not seem to be overdrawn:

Romanticism is man's revolt against reason, as well as against the condition under which nature has compelled him to live. The romantic is a daydreamer; he easily manages in imagination to disregard the laws of logic and nature. The thinking and rationally acting man tries to rid himself of the discomfort of unsatisfied wants by economic action and work; he produces in order to improve his position. The romantic . . . imagines the pleasures of success but he does nothing to achieve them[:] he does not remove the obstacles; he merely removes them in imagination. . . . He hates work, economy, and reason.

The romantic takes all the gifts of a social civilization for granted and desires, in addition, everything fine and beautiful that, as he thinks, distant times and creatures had or have to offer. Surrounded by the comforts of European town life he longs to be an Indian rajah, bedouin, corsair, or troubadour. But he sees only that portion of these people's lives which seems pleasant to him. . . . The perilous nature of their existence, the comparative poverty of their circumstances, their miseries and their toil—these things his imagination tactfully overlooks: all is transfigured by a rosy gleam. Compared with this dream ideal, reality appears arid and shallow. There are obstacles to overcome which do not exist in the dream. . . . Here there is work to do, ceaselessly, assiduously. . . . Here one must plough and sow if one wishes to reap. The romantic does not choose to admit all this. Obstinate as a child, he refuses to recognize it. He mocks and jeers; he despises and loathes the bourgeois.⁴⁵

The Romantic, or primitivist, attitude was also brilliantly criticized by the Spanish philosopher, Ortega y Gasset:

it is possible to have peoples who are perennially primitive . . . those who have remained in the motionless, frozen twilight, which never progresses towards midday.

This is what happens in the world which is mere Nature. But it does not happen in the world of civilization which is ours. Civilization is not "just there," it is not self-supporting. It is artificial. . . . If you want to make use of the advantages of civilization, but

⁴⁵Mises, *Socialism*, pp. 463–64. See also José Ortega y Gasset, *The Revolt of the Masses* (New York: W.W. Norton, 1932), pp. 63–65.

are not prepared to concern yourself with the upholding of civilization—you are done. In a trice you find yourself left without civilization. . . . The primitive forest appears in its native state. . . . The jungle is always primitive and, vice versa, everything primitive is mere jungle.⁴⁶

Ortega adds that the type of man he sees rising to the fore, the modern “mass-man,” “believes that the civilization into which he was born and which he makes use of, is as spontaneous and self-producing as Nature.” But the mass-man, the herd-man, is also characterized by his desire to stamp out those individuals who differ from the mass: “The mass . . . does not wish to share life with those who are not of it. It has a deadly hatred of all that is not itself.”⁴⁷

IV.

The Left, of course, does not couch its demands in terms of stamping out diversity; what it seeks to achieve sounds semantically far more pleasant: *equality*. It is in the name of equality that the Left seeks all manner of measures, from progressive taxation to the ultimate stage of communism.

But what, philosophically, is “equality?” The term must not be left unanalyzed and accepted at face value. Let us take three entities: A, B, and C. A, B, and C are said to be “equal” to each other (i.e., $A=B=C$) if a particular characteristic is found in which the three entities are uniform or identical. In short, here are three individual men: A, B, and C. Each may be similar in some respects but different in others. If each of them is precisely 5’10” in height, they are then *equal* to each other in height. It follows from our discussion of the concept of equality that A, B, and C can be *completely* “equal” to each other only if they are identical or uniform in *all* characteristics—in short, if all of them are, like the same size of nut or bolt, completely interchangeable. We see, then, that the ideal of human equality *can only* imply total uniformity and the utter stamping out of individuality.

⁴⁶Ortega y Gasset, *The Revolt of the Masses*, pp. 97.

⁴⁷*Ibid.*, pp. 98, 84. For Ortega, the great looming danger is that the mass-man will increasingly use the State “to crush beneath it any creative minority which disturbs it—disturbs it in any order of things: in politics, in industry.” *Ibid.*, p. 133.

It is high time, then, for those who cherish freedom, individuality, the division of labor, and economic prosperity and survival, to stop conceding the supposed nobility of the ideal of equality. Too often have “conservatives” conceded the ideal of equality only to cavil at its “impracticality.” Philosophically, there can be no divorce between theory and practice. Egalitarian measures do not “work” because they violate the basic nature of man, of what it means for the individual man to be truly human. The call of “equality” is a siren song that can only mean the destruction of all that we cherish as being human.

It is ironic that the term, “equality,” brings its favorable connotation to us from a past usage that was radically different. For the concept of “equality” achieved its widespread popularity during the classical liberal movements of the eighteenth century, when it meant, not uniformity of status or income, but freedom for each and every man, without exception. In short, “equality” in those days meant the liberation and individualist concept of full liberty for all persons. Thus, the biochemist Roger Williams correctly points out that the “‘free and equal’ phrase in the Declaration of Independence was an unfortunate paraphrase of a better statement contained in the Virginia Bill of Rights . . . ‘all men are by nature equally free and independent.’ In other words, men can be *equally free* without being *uniform*.”⁴⁸

This libertarian credo was formulated with particular cogency by Herbert Spencer in his “Law of Equal Liberty” as the suggested fundamental core of his social philosophy:

man’s happiness can be obtained only by the exercise of his faculties. . . . But the fulfillment of this duty necessarily presupposes freedom of action. Man cannot exercise his faculties without certain scope. He must have liberty to go and to come, to see, to feel,

⁴⁸Roger J. Williams, *Free and Unequal: The Biological Basis of Individual Liberty* (Austin, Texas: University of Texas Press, 1953), pp. 4–5. Williams adds: “Does not our love of liberty, which seems to be inherent in all of us, rest squarely upon our inequalities? If at birth we all possessed the same potential tastes . . . would we care about being free to pursue them as we individually desire? . . . It seems to me clear that the idea of freedom arose directly out of this human variability. If we were all alike there would seem to be no reason for wanting freedom; ‘living my own life’ would be an empty, meaningless expression.” *Ibid.*, pp. 5, 12.

to speak, to work; to get food, raiment, shelter, and to provide for each and all the needs of his nature. . . . To exercise his faculties he must have liberty to do all that his faculties actually impel him to do. . . . Therefore, he has a *right* to that liberty. This, however, is not the right of one but all. All are endowed with faculties. All are bound to . . . [exercise] them. All, therefore, must be free to do those things in which the exercise of them consists. That is, all must have rights to liberty of action.

And hence there necessarily arises a limitation. For if men have like claims to that freedom which is needful for the exercise of their faculties, then must the freedom of each be bounded by the similar freedom of all. . . . Wherefore we arrive at the general proposition, that every man may claim the fullest liberty to exercise his faculties compatible with the possession of like liberty by every other man.⁴⁹

Thus, only the specific equality of *liberty*—the older view of human equality—is compatible with the basic nature of man. Equality of *condition* would reduce humanity to an antheap existence. Fortunately, the individuated nature of man, allied to the geographical diversity on the earth, makes the ideal of total equality unattainable. But an enormous amount of damage—the crippling of individuality, as well as economic and social destruction—could be generated in the attempt.

Let us turn from equality to the concept of inequality, the condition that exists when every man is *not* identical to every other in all characteristics. It is evident that inequality flows inevitably out of specialization and the division of labor. Therefore, a free economy will lead not only to diversity of occupation, with one man a baker, another an actor, a third a civil engineer, etc., but specific *inequalities* will also emerge in monetary income and in status and scope of control within each occupation. Each person will, in the free-market economy, tend to earn a monetary income equal to the value placed upon his productive contribution in satisfying the desires and demands of the consumers. In economic terminology each man will

⁴⁹Herbert Spencer, *Social Statics* (London: John Chapman, 1851), pp. 76–78. In the remainder of the book, Spencer spins out the concrete implications of his basic principle. For a critique of the *Law of Equal Liberty*, see Murray N. Rothbard, *Power and Market* (Menlo Park, Calif.: Institute for Humane Studies, 1970), pp. 159–60.

tend to earn an income equal to his “marginal productivity,” to his particular productivity in satisfying consumer demands. Clearly, in a world of developed individual diversity, some men will be more intelligent, others more alert and farsighted, than the remainder of the population. Still others, meanwhile, will be more interested in those areas reaping greater monetary gain; those who succeed at wildcatting of crude oil will reap greater monetary rewards than those who remain in secretarial jobs.

Many intellectuals are wont to denounce the “unfairness” of the market in granting a far higher monetary income to a movie star than, say, a social worker, in that way rewarding “material” far more than “spiritual”; it strikes one that if the social worker’s alleged “goodness” indeed resides in her “spirituality,” then it is surely inappropriate and inconsistent to demand that she receive more of the “material” amenities (money) *vis-à-vis* the movie star. In the free society, those who are capable of providing goods and services that the consumers value and are willing to purchase, will receive precisely what the consumers are willing to spend. Those who persist in entering lower-priced occupations, either because they prefer the work or because they are not sufficiently capable in the higher-paid fields, can scarcely complain when they earn a lower salary.

If, then, inequality of income is the inevitable corollary of freedom, then so too is inequality of control. In any organization, whether it be a business firm, a lodge, or a bridge club, there will always be a minority of people who will rise to the position of leaders and others who will remain as followers in the rank and file. Robert Michels discovered this as one of the great laws of sociology, “The Iron Law of Oligarchy.” In every organized activity, no matter the sphere, a small number will become the “oligarchical” leaders and the others will follow.

In the market economy, the leaders, being more productive in satisfying the consumers, will inevitably earn more money than the rank and file. Within other organizations, the difference will only be that of control. But, in either case, ability and interest will select those who rise to the top. The best and most dedicated steel producer will rise to the leadership of the steel corporation; the ablest and most energetic will tend to rise to leadership in the local bridge club; and so on.

This process of ability and dedication finding its own level works best and most smoothly, it is true, in institutions such as business firms in the market economy. For here every firm places itself under the discipline of monetary profits and income earned by selling a suitable product to the consumers. If managers or workers fall down on the job, a loss of profits provides a very rapid signal that something is wrong and that these producers must mend their ways. In non-market organizations, where profit does not provide a test of efficiency, it is far easier for other qualities extraneous to the actual activity to play a role in selecting the members of the oligarchy. Thus, a local bridge club may select its leaders, not only for ability and dedication to the activities of the club, but also for extraneous racial or physical characteristics preferred by the membership. This situation is far less likely where monetary losses will be incurred by yielding to such external factors.

We need only look around us at every human activity or organization, large or small, political, economic, philanthropic, or recreational, to see the universality of the Iron Law of Oligarchy. Take a bridge club of fifty members and, regardless of legal formalities, half-a-dozen or so will really be running the show. Michels, in fact, discovered the Iron Law by observing the rigid, bureaucratic, oligarchic rule that pervaded the Social Democratic parties in Europe in the late nineteenth century, even though these parties were supposedly dedicated to equality and the abolition of the division of labor.⁵⁰ And it is precisely the obviously frozen inequality of income and power, and the rule by oligarchy, that has totally disillusioned the equality-seeking New Left in the Soviet Union. No one lionizes Brezhnev or Kosygin.

It is the egalitarian attempt by the New Left to escape the Iron Law of inequality and oligarchy that accounts for its desperate efforts to end elite leadership within its own organizations. (Certainly there has been no indication of any disappearance of the power elite in oft-heralded Cuba or China.) The early drive toward egalitarianism in the New Left emerged in the concept of "participatory democracy."

⁵⁰Robert Michels, *Political Parties* (Glencoe, Ill.: Free Press, 1949). See also the brilliant work by Gaetano Mosca, *The Ruling Class* (New York: McGraw-Hill, 1939), which focuses on the inevitability of a minority "ruling class" wielding power in government.

Instead of the members of an organization electing an elite leadership, so the theory ran, each person would participate equally in all of the organization's decision-making. It was, by the way, probably this *sense* of direct and intense participation by each individual that accounted for the heady enthusiasm of the masses in the very early stages of the revolutionary regimes in Soviet Russia and Cuba—an enthusiasm that quickly waned as the inevitable oligarchy began to take control and mass participation to die.

While the would-be participatory democrats have made keen criticisms of bureaucratic rule in our society, the concept itself, when applied, runs rapidly against the Iron Law. Thus, anyone who has sat through sessions of any organization engaged in participatory democracy knows the intense boredom and inefficiency that develop rapidly. For if each person must participate equally in all decisions, the time devoted to decision-making must become almost endless, and the processes of the organization *become* life itself for the participants. This is one of the reasons why many New Left organizations quickly begin to insist that their members live in communes and dedicate their entire lives to the organization—in effect, to merge their lives with the organization. For if they truly live and pursue participatory democracy, they can hardly do anything else. But despite this attempt to salvage the concept, the inevitable gross inefficiency and aggravated boredom ensure that all but the most intensely dedicated will abandon the organization. In short, if it can work at all, participatory democracy can work only in groups so tiny that they are, in effect, the “leaders” shorn of their following.

We conclude that, to succeed, any organization must eventually fall into the hands of specialized “professionals,” of a minority of persons dedicated to its tasks and able to carry them out. Oddly enough, it was Lenin who, despite his lip service to the ultimate ideal of egalitarian communism, recognized that a revolution, too, in order to succeed, must be led by a minority, a “vanguard,” of dedicated professionals.

It is the intense egalitarian drive of the New Left that accounts, furthermore, for its curious theory of education—a theory that has made such an enormous impact on the contemporary student movement in American universities in recent years. The theory holds that, in contrast to “old-fashioned” concepts of education, the teacher knows *no more* than any of his students. All, then, are

"equal" in condition; one is no better in any sense than any other. Since only an imbecile would actually proclaim that the student knows as much about the content of any given discipline as his professor, this claim of equality is sustained by arguing for the abolition of content in the classroom. This content, asserts the New Left, is "irrelevant" to the student and hence not a proper part of the educational process. The only proper subject for the classroom is not a body of truths, not assigned readings or topics, but open-ended, free-floating participatory discussion of the student's feelings, since only his feelings are truly "relevant" to the student. And since the lecture method implies, of course, that the lecturing professor knows more than the students to whom he imparts knowledge, the lecture too must go. Such is the caricature of "education" propounded by the New Left.

One question that this doctrine calls to mind, and one that the New Left has never really answered, of course, is *why* the students should then be in college to begin with. Why couldn't they just as well achieve these open-ended discussions of their feelings at home or at the neighborhood candy store? Indeed, on this educational theory, the school as such has no particular function; it *becomes*, in effect, the local candy store, and it, too, merges with life itself. But then, again, why have a school at all? And why, in fact, should the students pay tuition and the faculty receive a salary for their nonexistent services? If all are truly equal, why is the faculty alone paid?

In any case, the emphasis on feelings rather than rational content in courses again insures an egalitarian school; or rather, the school as such may disappear, but the "courses" would surely be egalitarian, for if only "feelings" are to be discussed, then surely everyone's feelings are approximately "equal" to everyone else's. Once allow reason, intellect, and achievement full sway, and the demon of inequality will quickly raise its ugly head.

If, then, the natural inequality of ability and of interest among men must make elites inevitable, the only sensible course is to abandon the chimera of equality and accept the universal necessity of leaders and followers. The task of the libertarian, the person dedicated to the idea of the free society, is not to inveigh against elites which, like the need for freedom, flow directly from the nature of man. The goal of the libertarian is rather to establish a free society, a society in which each man is free to find his best level. In such a free

society, everyone will be “equal” only in liberty, while diverse and unequal in all other respects. In this society the elites, like everyone else, will be free to rise to their best level. In Jeffersonian terminology, we will discover “natural aristocracies” who will rise to prominence and leadership in every field. The point is to allow the rise of these natural aristocracies, but not the rule of “artificial aristocracies”—those who rule by means of coercion. The artificial aristocrats, the coercive oligarchs, are the men who rise to power by invading the liberties of their fellowmen, by denying them their freedom. On the contrary, the natural aristocrats live in freedom and harmony with their fellows, and rise by exercising their individuality and their highest abilities in the service of their fellows, either in an organization or by producing efficiently for the consumers. In fact, the coercive oligarchs invariably rise to power by suppressing the natural elites, along with other men; the two kinds of leadership are antithetical.

Let us take a hypothetical example of a possible case of such conflict between different kinds of elites. A large group of people voluntarily engage in professional football, selling their services to an eager consuming public. Quickly rising to the top is a natural elite of the best—the most able and dedicated—football players, coaches, and organizers of the game. Here we have an example of the rise of a natural elite in a free society. Then, the power elite in control of the government decides in its wisdom that all professional athletics, and especially football, are evil. The government then decrees that pro football is outlawed and orders everyone to take part instead in a local eurythmics club as a mass-participatory substitute. Here the rulers of the government are clearly a coercive oligarchy, an “artificial elite,” using force to repress a voluntary or natural elite (as well as the rest of the population).

The libertarian view of freedom, government, individuality, envy, and coercive *versus* natural elites has never been put more concisely or with greater verve than by H.L. Mencken:

All government, in its essence, is a conspiracy against the superior man: its one permanent object is to oppress him and cripple him. If it be aristocratic in organization, then it seeks to protect the man who is superior only in law against the man who is superior in fact; if it be democratic, then it seeks to protect the man who is inferior in every way against both. One of its primary functions

is to regiment men by force, to make them as much alike as possible and as dependent upon one another as possible, to search out and combat originality among men. All it can see in an original idea is potential change, and hence an invasion of its prerogatives. The most dangerous man to any government is the man who is able to think things out for himself, without regard to the prevailing superstitions and taboos.⁵¹

Similarly, the libertarian writer Albert Jay Nock saw in the political conflicts between Left and Right “simply a tussle between two groups of mass-men, one large and poor, the other small and rich. . . . The object of the tussle was the material gains accruing from control of the State’s machinery. It is easier to seize wealth (from the producers) than to produce it; and as long as the State makes the seizure of wealth a matter of legalized privilege, so long will the squabble for that privilege go on.”⁵²

Helmut Schoeck’s *Envy* makes a powerful case for the view that the modern egalitarian drive for socialism and similar doctrines is a pandering to envy of the different and the unequal, but the socialist attempt to eliminate envy through egalitarianism can never hope to succeed. For there will always be personal differences, such as looks, ability, health, and good or bad fortune, which no egalitarian program, however rigorous, can stamp out, and on which envy will be able to fasten its concerns.

⁵¹H.L. Mencken, *A Mencken Chrestomathy* (New York: Alfred A. Knopf, 1949), p. 145.

⁵²Albert Jay Nock, *Memoirs of a Superfluous Man* (New York: Harper, 1943), p. 121.

Restrictionist Pricing of Labor

It might be asserted that labor unions, in exacting higher wage rates on the free market, are achieving monopoly prices. However, it is *not* true that a union wage rate could ever be called a monopoly price. For the characteristic of the monopolist is precisely that he monopolizes a factor or commodity.. To obtain a monopoly price, he sells only part of his supply and withholds selling the other part, because selling a lower quantity raises the price on an inelastic demand curve. It is the unique characteristic of labor in a free society, however, that it *cannot* be monopolized. Each individual is a self-owner and cannot be owned by another individual or group. Therefore, in the labor field, no one man or group can own the total supply and withhold part of it from the market. Each man owns himself.

A monopolist's action is always limited by loss of revenue from the withheld supply. But in the case of labor unions, this limitation does not apply. Since each man owns himself, the "withheld" suppliers are *different people* from the ones getting the increased income. If a union, in one way or another, achieves a higher price than its members could command by individual sales, its action is *not* checked by the loss of revenue suffered by the "withheld" laborers. If a union achieves a higher wage, some laborers are earning a higher price, while others are excluded from the market and lose the revenue they would have obtained.

These discharged workers are the main losers in this procedure. Since the union represents the remaining workers, it does not have to concern itself, as the monopolist would, with the fate of these workers. At best, they must shift to some other—nonunionized—

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industry. The trouble is, however, that the workers are less suited to the new industry. Their having been in the now unionized industry implies that their worth in that industry was higher than in the industry to which they must shift; consequently, their wage rate is now lower. Moreover, their entry into the other industry depresses the wage rates of the workers already there.

Consequently, at best, a union can achieve a higher, restrictionist wage rate for its members only at the expense of lowering the wage rates of all other workers in the economy. Production efforts in the economy are also distorted. But, in addition, the wider the scope of union activity and restrictionism in the economy, the more difficult it will be for workers to shift their locations and occupations to find nonunionized havens in which to work. And more and more the tendency will be for the displaced workers to remain permanently or quasi-permanently unemployed, eager to work but unable to find nonrestricted opportunities for employment. The greater the scope of unionism, the more a permanent mass of unemployment will tend to develop.

Unions try as hard as they can to plug all the "loopholes" of nonunionism, to close all the escape hatches where the dispossessed workmen can find jobs. This is termed "ending the unfair competition of nonunion, low-wage labor." A universal union control and restrictionism would mean permanent mass unemployment, growing ever greater in proportion to the degree that the union exacted its restrictions.

It is a common myth that only the old-style "craft" unions, which deliberately restrict their occupational group to highly skilled trades with relatively few numbers, can restrict the supply of labor. They often maintain stringent standards of membership and numerous devices to cut down the supply of labor entering the trade. This direct restriction of supply doubtless makes it easier to obtain higher wage rates for the remaining workers. But it is highly misleading to believe that the newer-style "industrial" unions do not restrict supply. The fact that they welcome as many members in an industry as possible cloaks their restrictionist policy.

UNEMPLOYMENT BY DECREE

The crucial point is that the unions insist on a minimum wage rate higher than what would be achieved for the given labor factor

without the union. By doing so, they necessarily cut the number of men whom the employer can hire. *Ergo*, the consequence of their policy is to restrict the supply of labor, while at the same time they can piously maintain that they are inclusive and democratic, in contrast to the snobbish “aristocrats” of craft unionism.

In fact, the consequences of industrial unionism are more devastating than those of craft unionism. For the craft unions, being small in scope, displace and lower the wages of only a few workers. The industrial unions, larger and more inclusive, depress wages and displace workers on a large scale and, what is even more important, can cause permanent mass unemployment.

The unemployment and the misemployment of labor, caused by restrictionist wage rates, need not always be directly visible. Thus, an industry might be particularly profitable and prosperous, either as a result of a rise in consumer demand for the product or from a cost-lowering innovation in the productive process. In the absence of unions, the industry would expand and hire more workers in response to the new market conditions. But if a union imposes a restrictionist wage rate, it may not cause the unemployment of any current workers in the industry; it may, instead, simply prevent the industry from expanding in response to the requirements of consumer demand and the conditions of the market. Here, in short, the union destroys *potential* jobs in the making and imposes a misallocation of production by preventing expansion. It is true that, without the union, the industry will bid up wage rates *in the process* of expansion; but if unions impose a higher wage rate at the beginning, the expansion will not occur.

WHY WORKERS AGREE

Some opponents of unionism go to the extreme of maintaining that unions can *never* be free-market phenomena and are always “monopolistic” or coercive institutions. Although this might be true in actual practice, it is not *necessarily* true. It is very possible that labor unions might arise on the free market and even gain restrictionist wage rates. How can unions achieve restrictionist wage rates on the free market? The answer can be found by considering the displaced workers. The key problem is: Why do the workers let *themselves* be displaced by the union’s minimum wage scale? Since they were willing to work for less before, why do they now meekly agree

to being fired and looking for a poorer-paying job? Why do some remain content to continue in a quasi-permanent pocket of unemployment in an industry, waiting to be hired at the excessively high rate? The only answer, in the absence of coercion, is that they have adopted on a commandingly high place on their value scales the goal of *not undercutting union wage rates*. Unions, naturally, are most anxious to persuade workers, both union and nonunion, as well as the general public, to believe strongly in the sinfulness of undercutting union wage rates.

This is shown most clearly in those situations where union members refuse to continue working for a firm at a wage rate below a certain minimum (or on other terms of employment). This situation is known as a *strike*. The most curious thing about a strike is that the unions have been able to spread the belief throughout society that the striking members are still “really” working for the company even when they are deliberately and proudly *refusing* to do so. The natural answer of the employer, of course, is to turn somewhere else and to hire laborers who *are* willing to work on the terms offered. Yet unions have been remarkably successful in spreading the idea through society that anyone who accepts such an offer—the “strikebreaker”—is the lowest form of human life.

To the extent, then, that nonunion workers feel ashamed or guilty about “strikebreaking” or other forms of undercutting union-proclaimed wage scales, the displaced or unemployed workers agree to their own fate. These workers, in effect, are being displaced to poorer and less satisfying jobs voluntarily, and remain unemployed for long stretches of time *voluntarily*. It is voluntary because that is the consequence of their voluntary acceptance of the *mystique* of “not crossing the picket line” or of not being a strikebreaker.

There are undoubtedly countless numbers of workers who do not realize that their refusal to cross a picket line, their “sticking to the union,” may result in their losing their jobs and remaining unemployed.

WHEN THE PEOPLE LEARN

As for the unions, the consequences of their activity, when discovered (for example, displacement or unemployment for oneself or others), will be considered unfortunate by most people. Therefore,

it is certain that when knowledge of these consequences becomes widespread, far fewer people will be “pro-union” or hostile to “non-union” competitors.

Such conclusions will be reinforced when people learn of another consequence of trade union activity: that a restrictionist wage raises costs of production for the firms in the industry. This means that the marginal firms in the industry—the ones whose entrepreneurs earn only a bare rent—will be driven out of business, for their costs have risen above their most profitable price on the market—the price that had *already* been attained. Their ejection from the market and the general rise of average costs in the industry signify a general fall in productivity and output, and hence a loss to the consumers. Displacement and unemployment, of course, also impair the general standard of living of the consumers.

Unions have had other important economic consequences. Unions are not *producing* organizations; they do not work for capitalists to improve production. Rather they attempt to persuade workers that they can better their lot at the expense of the employer. Consequently, they invariably attempt as much as possible to establish work rules that hinder management’s directives. These work rules amount to preventing management from arranging workers and equipment as it sees fit. In other words, instead of agreeing to submit to the work orders of management in exchange for his pay, the workers now set up not only minimum wages, but also work rules without which they refuse to work.

EVERYONE LOSES

The effect of these rules is to *lower the marginal productivity of all union workers*. The lowering of marginal value-product schedules has a two-fold result: (1) it itself establishes a restrictionist wage scale with its various consequences, for the marginal value product has fallen while the union insists that the wage rate remain the same; (2) consumers lose by a general lowering of productivity and living standards. Restrictive work rules therefore also lower output. All this is perfectly consistent with a society of individual sovereignty, however, provided always that no force is employed by the union.

To advocate coercive abolition of these work rules would imply literal enslavement of the workers to the dictates of consumers. But,

once again, it is certain that knowledge of these various consequences of union activity would greatly weaken the voluntary adherence of many workers and others to the *mystique* of unionism.

Unions, therefore, are theoretically compatible with the existence of a purely free market. In actual fact, however, it is evident to any competent observer that unions acquire almost all their power through the wielding of force, specifically force against strikebreakers and against the property of employers. An implicit license to unions to commit violence against strikebreakers is practically universal. Police commonly either remain “neutral” when strikebreakers are molested or else blame the strikebreakers for “provoking” the attacks upon them. Certainly, few pretend that the institution of mass picketing by unions is simply a method of advertising the fact of a strike to anyone passing by.

When unions are permitted to resort to violence, the state or other enforcing agency has implicitly delegated this power to the unions. The unions, then, have become “private states.”

FRUSTRATING THE MARKET

We have investigated the consequences of unions achieving restrictionist prices. This is not to imply, however, that unions always achieve such prices in collective bargaining. Indeed, because unions do not own workers and therefore do not sell their labor, the collective bargaining of unions is an artificial replacement for the smooth workings of “individual bargaining” on the labor market. Whereas wage rates on the nonunion labor market will always tend toward equilibrium in a smooth and harmonious manner, its replacement by collective bargaining leaves the negotiators with little or no rudder, with little guidance on what the proper wage rates would be.

Even with both sides trying to *find* the market rate, neither of the parties to the bargain could be sure that a given wage agreement is too high, too low, or approximately correct. Almost invariably, furthermore, the union is not *trying* to discover the market rate, but to impose various arbitrary “principles” of wage determination, such as “keeping up with the cost of living,” a “living wage,” the “going rate” for comparable labor in other firms or industries, an annual average “productivity” increase, “fair differentials,” and so forth.

Mercantilism: A Lesson for Our Times?

Mercantilism has had a “good press” in recent decades, in contrast to nineteenth-century opinion. In the days of Adam Smith and the classical economists, mercantilism was properly regarded as a blend of economic fallacy and state creation of special privilege. But in our century, the general view of mercantilism has changed drastically: Keynesians hail mercantilists as prefiguring their own economic insights; Marxists, constitutionally unable to distinguish between free enterprise and special privilege, hail mercantilism as a “progressive” step in the historical development of capitalism; socialists and interventionists salute mercantilism as anticipating modern state-building and central planning.

Mercantilism, which reached its height in the Europe of the seventeenth and eighteenth centuries, was a system of statism which employed economic fallacy to build up a structure of imperial state power, as well as special subsidy and monopolistic privilege to individuals or groups favored by the state. Thus, mercantilism held that exports should be encouraged by the government and imports discouraged. Economically, this seems to be a tissue of fallacy; for what is the point of exports if not to purchase imports, and what is the point of piling up monetary bullion if the bullion is not used to purchase goods?

But mercantilism cannot be viewed satisfactorily as merely an exercise in economic theory. The mercantilist writers, indeed, did not consider themselves economic theorists, but practical men of

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affairs who argued and pamphleteered for specific economic policies, generally for policies which would subsidize activities or companies in which those writers were interested. Thus, a policy of favoring exports and penalizing imports had two important practical effects: it subsidized merchants and manufacturers engaged in the export trade, and it threw up a wall of privilege around inefficient manufacturers who formerly had to compete with foreign rivals. At the same time, the network of regulation and its enforcement built up the state bureaucracy as well as national and imperial power.

The famous English Navigation Acts, which played a leading role in provoking the American Revolution, are an excellent example of the structure and purpose of mercantilist regulation. The network of restriction greatly penalized Dutch and other European shippers, as well as American shipping and manufacturing, for the benefit of English merchants and manufacturers, whose competition was either outlawed or severely taxed and crippled. The use of the state to cripple or prohibit one's competition is, in effect, the grant by the state of monopolistic privilege; and such was the effect for Englishmen engaged in the colonial trade.

A further consequence was the increase of tax revenue to build up the power and wealth of the English government, as well as the multiplying of the royal bureaucracy needed to administer and enforce the regulations and tax decrees. Thus, the English government, and certain English merchants and manufacturers, benefited from these mercantilist laws, while the losers included foreign merchants, American merchants and manufacturers, and, above all, the *consumers* of all lands, including England itself. The consumers lost, not only because of the specific distortions and restrictions on production of the various decrees, but also from the hampering of the international division of labor imposed by all the regulations.

ADAM SMITH'S REFUTATION

Mercantilism, then, was not simply an embodiment of theoretical fallacies; for the laws were only fallacies if we look at them from the point of view of the consumer, or of each individual in society. They are not fallacious if we realize that their aim was to confer special privilege and subsidy on favored groups; since subsidy and privilege can only be conferred by government at the expense of the

remainder of its citizens, the fact that the bulk of the consumers lost in the process should occasion little surprise.¹

Contrary to general opinion, the classical economists were not content merely to refute the fallacious economics of such mercantilist theories as bullionism or protectionism; they also were perfectly aware of the drive for special privilege that propelled the "mercantile system." Thus, Adam Smith pointed to the fact that linen yarn could be imported into England duty free, whereas heavy import duties were levied on finished woven linen. The reason, as seen by Smith, was that the numerous English yarn-spinners did not constitute a strong pressure-group, whereas the master-weavers were able to pressure the government to impose high duties on their product, while making sure that their raw material could be bought at as low a price as possible. He concluded that the

motive of all these regulations, is to extend our own manufactures, not by their own improvement, but by the depression of those of all our neighbors, and by putting an end, as much as possible, to the troublesome competition of such odious and disagreeable rivals.

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as

¹The laws and proclamations . . . were the product of conflicting interests of varying degrees of respectability. Each group, economic, social, or religious, pressed constantly for legislation in conformity with its special interest. The fiscal needs of the crown were always an important and generally a determining influence on the course of trade legislation. Diplomatic considerations also played their part in influencing legislation, as did the desire of the crown to award special privileges, to its favorites, or to sell them, or to be bribed into giving them, to the highest bidders. . . . The mercantilist literature, on the other hand, consisted in the main of writings by or on behalf of "merchants" or businessmen . . . tracts which were partly or wholly, frankly or disguisedly, special pleas for special economic interests. Freedom for themselves, restrictions for others, such was the essence of the usual program of legislation of the mercantilist tracts of merchant authorship. (Jacob Viner, *Studies in the Theory of International Trade* [New York: Harper and Bros., 1937], pp. 58–59)

it may be necessary for promoting that of the consumer. . . . But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.

In the restraints upon the importation of all foreign commodities which can come into competition with those of our own growth, or manufacture, the interest of the home-consumer is evidently sacrificed to that of the producer. It is altogether for the benefit of the latter, that the former is obliged to pay that enhancement of price which this monopoly almost always occasions.

It is altogether for the benefit of the producer that bounties are granted upon the exportation of some of his productions. The home-consumer is obliged to pay, first, the tax which is necessary for paying the bounty, and secondly, the still greater tax which necessarily arises from enhancement of the price of the commodity in the home market.²

BEFORE KEYNES

Mercantilism was not only a policy of intricate government regulations; it was also a pre-Keynesian policy of inflation, of lowering interest rates artificially, and of increasing “effective demand” by heavy government spending and sponsorship of measures to increase the quantity of money. Like the Keynesians, the mercantilists thundered against “hoarding,” and urged the rapid circulation of money throughout the economy; furthermore, they habitually pointed to an alleged “scarcity of money” as the cause of depressed trade or unemployment.³ Thus, in a prefiguration of the Keynesian “multiplier,” William Potter, one of the first advocates of paper money in the Western world (1650), wrote:

²Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (New York: Modern Library, 1937), p. 625.

³See the laudatory “Note on Mercantilism” in chapter 23 of John Maynard Keynes, *The General Theory of Employment, Interest, and Money* (New York: Harcourt, Brace, 1936).

The greater quantity . . . of money . . . the more commodity they sell, that is, the greater is their trade. For whatsoever is taken amongst men . . . though it were ten times more than now it is, yet if it be one way or other laid out by each man, as fast as he receives it . . . it doth occasion a quickness in the revolution of commodity from hand to hand . . . much more than proportional to such increase of money.⁴

And the German mercantilist F.W. von Schrötter wrote of the importance of money changing hands, for one person's spending is another's income; as money "pass[es] from one hand to another . . . the more useful it is to the country, for . . . the sustenance of so many people is multiplied," and employment increased. Thrift, according to von Schrötter, causes unemployment, since saving withdraws money from circulation. And John Cary wrote that if everyone spent more, everyone would obtain larger incomes, and "might then live more plentifully."⁵

Historians have had an unfortunate tendency to depict the mercantilists as inflationists and *therefore* as champions of the poor debtors, while the classical economists have been considered hard-hearted apologists for the *status quo* and the established order. The truth was almost precisely the reverse. In the first place, inflation did not benefit the poor; wages habitually lagged behind the rise in prices during inflations, especially behind agricultural prices. Furthermore, the "debtors" were generally not the poor but large merchants and quasi-feudal landlords, and it was the landlords who benefited triply from inflation: from the habitually steep increases in food prices, from the lower interest rates and the lower purchasing-power of money in their role as debtors, and from the particularly large increases in land values caused by the fall in interest rates. In fact, the English government and Parliament was heavily landlord-dominated, and it is no coincidence that one of the main arguments of the mercantilist writers for inflation was that it would greatly raise the value of land.

⁴Quoted in Viner, *Studies in the Theory of International Trade*, p. 38.

⁵Quoted in Eli F. Heckscher, *Mercantilism*, 2nd ed. (New York: Macmillan, 1955), vol. 2, pp. 208–09. Also see Edgar S. Furniss, *The Position of the Laborer in a System of Nationalism* (New York: Kelley and Milman, 1957), p. 41.

EXPLOITATION OF WORKERS

Far from being true friends of laborers, the mercantilists were frankly interested in exploiting their labor to the utmost; full employment was urged as a means of maximizing such exploitation. Thus, the mercantilist William Petyt wrote frankly of labor as “capital material . . . raw and undigested . . . committed into the hands of supreme authority, in whose prudence and disposition it is to improve, manage, and fashion it to more or less advantage.”⁶ Professor Furniss comments that “it is characteristic of these writers that they should be so readily disposed to trust in the wisdom of the civil power to ‘improve, manage, and fashion’ the economic ‘raw material’ of the nation. Bred of this confidence in statecraft, proposals were multiplied for exploiting the labor of the people as the chief source of national wealth, urging upon the rulers of the nation diverse schemes for directing and creating employment.”⁷ The mercantilists’ attitude toward labor and full employment is also indicated by their dislike of holidays, by which the “nation” was deprived of certain amounts of labor; the desire of the individual worker for leisure was never considered worthy of note.

COMPULSORY EMPLOYMENT

The mercantilist writers realized frankly that corollary to a guarantee of full employment is coerced labor for those who don’t wish to work or to work in the employment desired by the guarantors. One writer summed up the typical view: “it is absolutely necessary that employment should be provided for persons of every age that are able and willing to work, and the idle and refractory should be sent to the house of correction, there to be detained and constantly kept to labor.” Henry Fielding wrote that “the constitution of a society in this country having a claim on all its members, has a right to insist on the labor of the poor as the only service they can render.” And George Berkeley asked rhetorically “whether temporary servitude would not be the best cure for idleness and beggary. . . . Whether sturdy beggars may not be seized and made slaves to the

⁶Quoted in *ibid.*, p. 41.

⁷*Ibid.*

public for a certain term of years?"⁸ William Temple proposed a scheme to send the children of laborers, from the age of four on, to public workhouses, where they would be kept "fully employed" for at least twelve hours a day, "for by these means we hope that the rising generation will be habituated to constant employment." And another writer expressed his amazement that parents tended to balk at these programs:

Parents . . . from whom to take for time the idle, mischievous, least useful and most burdensome part of their family to bring them up without any care or expense to themselves in habits of industry and decency is a very great relief; are very much adverse to sending their children . . . from what cause, it is difficult to tell.⁹

Perhaps the most misleading legend about the classical economists is that they were apologists for the *status quo*; on the contrary, they were "radical" libertarian opponents of the established Tory mercantilist order of big government, restrictionism, and special privilege. Thus, Professor Fetter writes that during the first half of the nineteenth century, the

Quarterly Review and *Blackwood's Edinburgh Magazine*, staunch supporters of the established order, and opponents of change in virtually all fields, had no sympathy with political economy or with *laissez-faire*, and were constantly urging maintenance of tariffs, expenditures by government, and suspension of the gold standard in order to stimulate demand and increase employment. On the other hand the *Westminster's* [journal of the classical liberals] support of the gold standard and free trade, and its opposition to any attempt to stimulate the economy by positive government action, came not from believers in authority or from defenders of the dominant social force behind authority, but from the most articulate intellectual radicals of the time and the severest critics of the established order.¹⁰

⁸See *ibid.*, pp. 79–84.

⁹*Ibid.*, p. 115.

¹⁰Frank W. Fetter, "Economic Articles in the *Westminster Review* and their Authors, 1824–51," *Journal of Political Economy* (December 1962): 572.