

THE ENEMIES OF PRODUCTION

WHAT Ralph Nader and his associates advertised as Big Business Day on April 17, 1980 was aimed at generating mass public support for legislation to curtail corporate power—to fight “Crime in the Suites.” Counter-demonstrations were organized to commemorate the past achievements of the enterprise economy and demonstrate a national consensus on the need for economic policies that promote jobs and prosperity.

This important debate involves the question of growth versus no-growth. It is a question of economic progress and material prosperity versus stagnation, unemployment and poverty. Is it time for sacrifice; time to pursue policies of zero economic growth; time to write an

obituary for the American Dream? Or can we continue to have an expanding economic pie, with a larger share for everyone?

More importantly, however, this debate boils down to the question of human liberty. Proponents of the no-growth mentality are siding with the collectivists in the historic struggle between individual freedom versus government control. It is imperative, therefore, that those who cherish liberty understand the issues involved in this latest attempt to expand the power of the state.

Ironically, Big Business Day 1980 occurred on the eve of the anniversary of Lexington and Concord—the shot heard round the world. Some of the most vocal advocates for increasing the role of government in business and consumer decisions

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selected a week that celebrates the beginning of the American Revolution to voice their views.

A New Tyranny

One of the reasons for severing the ties with England was that King George III and Parliament were trying to tax and regulate commerce and industry—business. In the Declaration of Independence, Thomas Jefferson charged that George III had “erected a multitude of offices and sent hither swarms of officers to harass our people and eat out their substance.” This is exactly what we see happening today, only there is a new tyranny in the place of George III. This new tyranny is being imposed through the implementation of proposals espoused by “the new adversary class.” They “have erected a multitude of offices”—OSHA, the EPA, FTC, CPSC, DOE, CSA, FDA, ad infinitum—and “sent hither swarms of officers”—agents, inspectors, lawyers, and the like—“to harass our people and eat out their substance”—our productivity and our wealth.

The danger posed by this new class is that they are using the power of the state to bring about the changes they desire. They want to force compliance with what they determine are the right policies to pursue and the proper way to live one’s life. They are statist. As a result, government is playing a much

greater role in our lives. Even aside from the massive increase in public sector consumption of private sector wealth, the extent of the regulatory activities of government is alarming. We have almost totally abandoned the original concept of a government of limited and enumerated powers.

Anyone not convinced of this ominous trend need only pick up the daily newspaper, particularly one that covers business news. Without making any value judgment as to whether a particular government activity is good or bad, just notice the extent to which government is involved in every economic transaction. For example, here are a few of the stories in a recent issue of the *Wall Street Journal*:

- FAA May Go to Court Over Limits Set on Use of California Airports
- Auto Warranty Services Are Studied by the FTC
- TWA Seeks Authority from CAB for New Route
- California Utility Fined for Safety Violations
- Oklahoma G&E Wins Temporary Rate Boost
- Revenue From Carter’s Import Fee on Oil is \$10 Billion Prize Sought by Everyone
- More Banks Take Steps to Place Restrictions on Loans to Consumers to Stay Within Federal Reserve Guidelines

This increase in the power and especially the scope of government is a major change which warrants attention.

Special Interest Legislation

There are two major causes for this trend toward big government. The first occurred very early in U.S. history as individuals, often businessmen, realized they could obtain special privileges from government. Special interests sought grants, subsidies, exclusive licenses and various forms of protective legislation. This was the history of most early regulatory agencies. They were created to protect the "public interest" but soon fell into the hands of the special interests. They were "captured" by the very industries they were supposed to regulate. As a result, they aided and protected various vested interests. One need only visit the halls of Congress and observe trade associations, labor leaders, and businessmen lobbying for various types of special interest legislation to realize that this factor in the growth of government continues today.

The reason this type of plunder has been so successful and is still going on is because, as Milton Friedman and others have pointed out, the benefits are concentrated in the hands of a few, while the costs are diffused among millions of taxpayers. For example, a particular

industry lobbies in Washington, D.C., for a subsidy of ten million dollars. This benefit is concentrated. With \$10 million at stake, the industry will hire lobbyists to wine and dine Congressmen; they may form a political action committee to distribute thousands of dollars to the re-election campaigns of Congressmen favorable to their subsidy. In short, the benefit is concentrated so potential recipients will go all out to obtain it.

On the other hand, the dollar costs are diffused. The subsidy will be collected from taxes, both direct and hidden, levied on millions of taxpayers. A subsidy of \$10 million to a special interest is not much to excite a taxpayer, since his share of the \$10 million is, on average, less than a dime. It would cost a taxpayer more than that to write a letter or telephone his Congressman to protest this subsidy. The cost is diffused. This is why there has never been much vocal opposition to the specific subsidies granted special interests; taxpayers simply, and quite naturally, don't feel the added burden of each specific program.

This scheme is even more effective when the subsidy is in a non-monetary form—a protective tariff, a licensing law, an increase in the minimum wage, and so forth. In these cases not only are the dollar costs diffused, but they are hidden, usually in the prices of goods and

services. These are ideal subsidies from the standpoint of politicians since the dollar costs are usually in the form of higher prices, not higher taxes. Furthermore, the costs are often in terms of what is unseen—goods which are never produced or tasks which are not profitable to complete.

This is the first reason for the growth of government—special interests engage in legalized plunder because the benefits are concentrated, while the costs are diffused and hidden.

The New Adversary Class

The second major cause is the advocacy and lobbying by the “new adversary class.” This trend is responsible for much of the regulation of recent years. Self-proclaimed consumer, environmental, and worker interests have managed to use government to force compliance with goals they view as socially desirable. These are generally sincere, well-motivated individuals. They want Americans to drive safe cars; they want our energy sources to be environmentally safe; and they want to eliminate hazards in the workplace—all laudable goals. These advocates of economic democracy even claim to support competition and human liberty. The tragedy of this is that while many of them seek such lofty objectives, the policies they advocate would take us in the opposite

direction. Their proposals would lead to an increased centralization of power, reduced production, less competition, and greatly diminished human liberty, not only for businessmen but also for consumers, workers, and shareholders. In short, we would be further down the road to serfdom.

A brief look at some of the so-called evils of big business demonstrates that advocates of economic democracy have faulty powers of observation and little understanding of the free market process. Furthermore, most seem to lack any fundamental principles that might serve as restraints against unlimited expediency.

They are horrified by giant corporations because they are giant. Big is bad, they claim. Yet they fail to understand how—in a free market—a corporation becomes a giant corporation. It can grow only if consumers *voluntarily* buy the product it offers, only if workers *voluntarily* work for the wages it can pay, and only if individuals with savings will *voluntarily* invest their capital in the corporation. In short, it achieves bigness only by convincing individuals that it is in their self-interest to voluntarily associate with the corporation.

In his excellent book, *In Defense of the Corporation*, Robert Hessen describes the situation as follows: “Combining the capital of millions

of investors and talents of millions of workers, giant corporations are a testament to the ability of free men, motivated by self-interest, to engage in sustained, large-scale, peaceful cooperation for their mutual benefit and enrichment. As a result, Americans today enjoy a standard of living—of luxury, leisure and longevity—that is unprecedented in world history and unparalleled in contemporary socialist societies.”

But not only is big business bad simply because it is big, we are told, but also because it is powerful. Bigness means power, critics claim. This view indicates a poor understanding of the role of consumers in a free market and how they determine profit and loss. The charge that businessmen are primarily after profit is generally accurate. For most, this is true. However, this should not be considered a derogatory remark. It is precisely the desire for profit that drives businessmen into the never-ending effort to fulfill consumer desires.

The Consumers Are in Charge

Rather than consumers being at the mercy of giant corporations, as “consumerists” charge, it is the other way around. In a free society, it is consumers, through their everyday purchasing decisions, who hold life and death power over corporations. This is true consumer sovereignty. Businesses spend mil-

lions of dollars every year trying to determine what consumers want. It is consumers who ultimately decide what products are brought to the market, which sellers will make a profit, and how high that profit will be.

This is another complaint of many critics of capitalism—that profits are too high or that they come at the expense of workers and consumers. Most businessmen try to defend their profits with all sorts of figures showing that profits are being misreported or misunderstood—that they are really very low. However, this ignores what profit is. Profit is an indication of the efficient use of scarce land, labor and capital. Losses are an indication of the inefficient use of these resources. The way to increase profit is to use resources more efficiently. Those best served by the efficient use of scarce resources are the consumers. More efficient use of resources means more for less—more goods from a given or smaller amount of resources. Those who criticize profits, especially high profits, are criticizing consumers for casting their dollar votes in the marketplace for producers who employ resources most efficiently in serving consumers. In other words, those who attack profits are attacking consumers, not businessmen.

Just as important, from the standpoint of consumers, as the freedom to make a profit is the free-

dom to make mistakes—the freedom to fail. Ours is a profit and *loss* system. Only producers who respond to consumer demands in an efficient manner will survive. As Dr. Bertel M. Sparks wrote in the June, 1975 *Freeman*, “. . . every time the government intervenes to prop up a failing business or to restrain the operation of a successful one, the government is using the consumer’s hard-earned tax dollars to veto the consumer’s wishes that have already been registered in the market place.”

The Responsibility of Management toward Shareholders

Shareholders and workers also have a veto power over business, despite charges to the contrary by critics of the system. Proponents of corporate democracy charge that shareholders are not involved in the everyday decisions of corporations—they propose shareholder plebiscites on any action involving 10 per cent or more of the corporation’s assets. The reality they overlook is that most shareholders do not desire to make the management decisions of a corporation. They buy stock because they don’t have the time, talent, or desire to manage that portion of their savings. If they don’t like what the corporation is doing they can sell their share of ownership. If enough other shareholders do likewise it is the corpora-

tion that will suffer and be subject to takeover or possible bankruptcy.

The responsibility of the officers and directors is to the owners—the shareholders—and this is usually a responsibility to maximize return on investment. If officers fail in this task they risk losing their positions in the business. The relationship of shareholders to a corporation is completely contractual and voluntary. Some social critics may not like it, but they have neither moral justification nor legal right to prohibit it.

A further criticism of big business is that because it is big and interested only in profit, it will overlook quality, particularly in the area of safety. The consumer protection movement, growing out of Ralph Nader’s attack on the Corvair, believes government should mandate standards of safety producers must follow. Yet this overlooks the fact that safety is a matter of degree and a function of cost. In a free market, consumers will purchase safety up to the point at which the additional cost for safety outweighs the value they place on alternative uses of their money. From an efficiency standpoint, mandated safety generally means higher prices and therefore is a burden which hits the poor especially hard.

But the real question is whether government should prohibit individuals from *voluntarily* purchasing

relatively unsafe products. If consumers do not desire to pay hundreds of dollars extra for an automobile with seat belts, air bags, and bumpers that absorb 30 M.P.H. collisions, should government force them to do so? The so-called "consumerists" want to force consumers to buy extras they arbitrarily determine consumers should have. But if consumers can't afford these extras, should they be forced to go without an automobile or continue driving older, less safe vehicles?

Yet, the overlooked reality in this situation is that businessmen try to produce what consumers want—if consumers indicate a desire for added safety features in products by voting for them with their dollars, producers will respond. As Dr. Sparks asks in the previously quoted article: "... if the buyer is not permitted to exercise his own judgment as to the suitability of a product for his purposes, who is to make that judgment for him? That is the critical question too often ignored by those who would deprive the consumer of his dominant role in the market place. . . . The real question is whether or not a person of mature years should be free to make mistakes."

The History of Capitalism

The historical record of capitalism is one of the improvement of the material condition of mankind. More importantly, but less recog-

nized, capitalism is the only economic system consistent with freedom. Capitalism is a system that *has* worked, that *does* work, and that *can* work. Consumer, worker, businessman—all have benefited from the ingredients of capitalism: private property, the division of labor, peaceful and voluntary cooperation, diversity, opportunity, self-reliance, and an expanding economic pie. If you really have the interests of the consumer in mind, if you are truly concerned about the disadvantaged minorities, if you want to offer hope to the poor, then you must support the free market system.

But to say it *has*, it *does*, and it *will* work is not to say it is working. That is not a free market out there. We have adopted a mixed-economy, and it isn't working. Each regulation that is enacted has its costs, in terms of both personal freedom and economic efficiency. We've saddled our productive, free sector with so much taxation, red tape, regulation and control that it is slowing down. We can see the effects. It threatens the future of the American Dream and of our free society.

It is important that we advance our understanding of how the free market system works. We must acknowledge that profits are not something to apologize for—they are the mark of success. They indicate the efficient use of scarce resources in

supplying consumers with the goods and services they want. The businessman who makes a profit is the genuine servant of the consumers.

Furthermore, it must be recognized that government can only control people. Government cannot control automobiles, it can only control the people who manufacture automobiles, or the consumers who wish to purchase them. Government cannot control wages or prices, only people. Price controls are people controls. A wage control intervenes in the voluntary agreement between an employee and an employer, denying each a certain degree of freedom. Attempts to use government to implement political, social or economic goals, no matter how desirable they may seem to be, require the use of coercion and therefore diminish precious freedom.

In Defense of the Market

The real consumer advocate is the individual who understands the free market process and is willing to defend it. A free market makes production and economic progress possible. To be a genuine consumer advocate one must support this system, for production is a necessary precedent to consumption. The policies of the self-proclaimed consumerists have so saddled our productive sector that they have imperiled the ability of business to respond to consumer demand. It is the ultimate in folly that opponents of production and economic progress have appropriated the title of consumer advocate. Their policies threaten the survival of our free, productive society and therefore make the consumer an endangered species. ⊕

Consumers Choose

CAPITALIST SOCIETY has no means of compelling a man to change his occupation or his place of work other than to reward those complying with the wants of the consumers by higher pay. It is precisely this kind of pressure which many people consider as unbearable and hope to see abolished under socialism. They are too dull to realize that the only alternative is to convey to the authorities full power to determine in what branch and at what place a man should work.

In his capacity as a consumer man is no less free. He alone decides what is more and what is less important for him. He chooses how to spend his money according to his own will.

IDEAS ON



LIBERTY

LUDWIG VON MISES, *Human Action*

AGAINST ALL ENEMIES

Part II

JOHN QUINCY ADAMS, sixth President of the United States, once observed: "Our Constitution professedly rests upon the good sense and attachment of the people. This basis, weak as it may appear, has not yet been found to fail."

Up until President Adams' administration and for many years afterwards, our Constitution did indeed work in the manner it was meant to work. Times have changed, though. Although the principles of the Constitution of the United States remain as strong as ever, we have seriously neglected and forsaken them. The Constitution itself is a rugged, farsighted document, but, as Presi-

dent Adams said, its effectiveness lies in how well we observe its provisions.

Tragically, too many Americans today have abandoned the faith of the Founding Fathers. Our Constitution has been trampled upon by government officials, members of the mass media, educators, other public-opinion molders, as well as the average citizen.

Consider for a moment how some Americans (particularly those serving in Congress) have manipulated the "general welfare" clause of the Constitution. The "general welfare" is mentioned in the preamble and in Article I, Section 8.

The preamble reads: "WE THE PEOPLE of the United States, in Order to form a more perfect Union, establish Justice, insure domestic Tranquility, provide for the common

In this three-part series, Robert Bearce of Houston, Texas identifies the basic principles of limited government as set forth in the Constitution of the United States. He shows how we have forsaken many of the basics, and points the way toward a restoration of freedom.