Consumers, Not Special Interests

Consumers are harmed by all forms of special interest legislation. Three are examined here.

by Dean Russell

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We human beings have always organized ourselves into groups to increase our ability to get the goods and services necessary for survival. Even our most primitive ancestors eventually learned that production (and thus survival) could be increased by organizing and specializing.

When we use this organization for peaceful production, it usually proves successful. But when we organize to increase our possession of products by plundering our neighbors, the ultimate consequences are usually more costly than profitable.

Both of these methods for increasing our supply of products and services are still used in the United States today. When the method of voluntary exchange of goods and services is used, the results are successful indeed; production skyrockets and prosperity is widespread. But special interest groups inevitably organize to increase their share by voting for laws that compel us to pay for products and services we don't want at their "special privilege" prices.

When special interest legislation is used, when voluntary exchange is interfered with, all of us consumers are directly and indirectly harmed. Ultimately, even the special interest groups find the consequences of this approach to be more costly than profitable.

I'm here selecting three of the most familiar and harmful of these special interest laws for brief examination. They are price supports for farmers, legally imposed wage increases for employees, and rent controls for tenants.

Price supports injure us consumers by keeping inefficient producers in business, or they encourage producers to take uneconomic actions that eventually increase costs, or they directly and immediately increase the price of the supported product, or (most likely) they increase the cost to us consumers by a combination of all three categories.

Further, as is now becoming increasingly obvious, even the recipients of the price supports (the producers) are also injured—frequently to a much greater degree than are we general consumers of their products. For example, so many farmers have been literally forced into bankruptcy by the government's "support programs" that were supposed to help them by keeping prices higher than they would be in a market economy.

Beguiled by our government's promise to pay for unwanted production, farmers bought (or held on to) land at double and treble the price it would be in a free market; and they increased production accordingly. That, of course, only worsened a situation that had been caused in the first place by more production than we consumers would buy at prices needed to keep all those farmers in business.

In an effort to decrease the unwanted production, our government began paying farmers to keep a part of their land idle. Our government then began buying and storing vast quantities of the excess production at a cost of billions of dollars to us consumers (taxpayers). But "political considerations" forced the officials to dispose of the surplus products by giving them away to low-income groups and by selling them below cost in the world agricultural market. Both of those giveaway programs reduced the number of paying customers. That, in turn, put further pressure on the farmers to reduce prices in order to sell the products that were not bought by government but had to be sold to us consumers directly.

Eventually, of course, the economic reality of consumer demand and producer supply re-established itself in our still reasonably free economy. And the recipients of the price supports (the farmers) ended up the most injured of all. Their liabilities in debts were soon much higher than their assets in overpriced land and unreliable political promises for special treatment. They were bankrupt.

Farmers seem strangely unaware that they, too, are consumers. And as consumers, they just can't pay the artificially inflated prices for products they themselves have to buy to stay in business. When they voted for "special privilege laws for farmers," they simply ignored the connection between their price supports and the rising prices for all products and services. The consequences of governmental interventions in the market place can't be restricted to just one item or category; there's a "neighborhood effect" that inevitably affects all prices to the detriment of all consumers.

Labor Laws Decrease Productivity

Similar economic consequences also come from labor laws that interfere with the market allocation and price of that particular factor of production. Those laws usually increase the cost of labor above the market price, or decrease the productivity of labor, or both. In turn, those uneconomic political decisions cause an increase in prices to all consumers of the products and services.

Once again, the recipients of those "special interest" labor laws frequently end up as the most injured of all. They price themselves out of the market, especially the world market. Their employers move or go bankrupt. The employees then turn to their government for welfare support. And thus their economic misfortunes are compounded by loss of personal pride that usually comes from lengthy unemployment, plus the inevitable decrease in respect by many of their neighbors. That, of course, is the most destructive consequence of all.

When I buy a product, my invariable policy is to look behind the label, and to search for the best quality and lowest price. I'm not unduly interested in who produces it, or where. In fact, if it comes

The effect of rent controls, The Bronx. P. KARAS, FPG INTERNATIONAL

from abroad at a lower price, I know that products in general are thereby *increased* for us consumers; we get the wanted product, plus the additional products we buy with the "leftover" money.

As a third example of the harm done by these governmental interferences in a market economy, consider housing. Rent controls do great injury to us consumers in general but, more likely than not, they are especially damaging to persons who live in the price-controlled apartments.

The first and immediate effect of rent controls on housing is to stop the building of new houses and apartments for rent. That's why there hasn't been a single house or apartment building constructed by private investors at rent-controlled prices in New York City since those laws were imposed "temporarily" in 1942. The reason is simple: You and I, as reasonably prudent investors, will not voluntarily agree to build products that are obviously price-limited below the market in a situation that's controlled by politicians. Those elected officials are well aware that "more tenants vote than landlords." That fact also explains why those "temporary laws" are likely to remain with us until all the buildings controlled by them finally disappear—either literally or by conversion to more profitable categories.

In an attempt to increase housing in New York, Governor Thomas Dewey sponsored a law in 1954 to permit the owners of *new* apartments to charge market prices. While that did induce new construction of apartments for rent, the continuing rent controls on all pre-war apartments contributed greatly to the near-destruction of a once-great city. Here's a personal story to show how it works.

When I first visited New York in 1937, the first bed I slept in was a sofa in the apartment of a friend living in the South Bronx. That area was a friendly and well-tended neighborhood with thousands of apartments, rented mostly to families with moderate incomes. I visited there again in 1948, after six years of rent controls. It was still a desirable neighborhood, but the deteriorating process had begun.

An inevitable companion of rent control is the decay of the buildings. The owners of those buildings act precisely as you and I always act with our own investments. We look for safety and a good return. And just as you and I would have done, the owners of those rent-controlled properties began to skimp on upkeep and to transfer back into a market economy whatever capital they could recover from gross income.

When that process became obvious, the tenants organized to keep the rents low and legally to compel the owners to paint and repair the buildings and to provide adequate heat during the winter. But turning to the law to force investors to spend their money uneconomically never works. Since you and I don't act that way, why do we expect the owners of rental buildings to act against their own self-interests?

In due course, the more desirable tenants began to move out of those deteriorating rent-controlled buildings in the South Bronx. Their places were increasingly taken by unemployed people existing on government welfare. That development soon induced almost all of the original tenants to move out.

Rent control laws help nobody, perhaps least of all the tenants trapped by them. Even high-income tenants frequently remain in their present locations and thus forgo more desirable jobs because of the higher rents they would have to pay if they accepted the offer of a better job and moved to another city. Anyway, rent-controlled tenants in general are increasingly being dispossessed by the owners who convert their uneconomic rental buildings into cooperatives and condominiums in an effort to get a market return on their investments.

When we turn to government to stop the voluntary exchanging of goods and services that goes on among peaceful persons in a free market economy, the process does injury to all consumers, i.e., everybody, and often literally destroys the people who receive the government's help. □

Free Trade and Prosperity: A Global Approach

International development and domestic prosperity are ensured by free trade.

by Steven E. Daskal

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Americans are especially prone to feel obligated to help others on a global scale. Whether it is the unfortunate plight of our fellows in the under-developed nations, often known as the "Third World," or the difficulties and unemployment facing some Americans at home, we care. Within that context, free trade is a vital issue, because it is one of the primary means by which the market economy helps create global prosperity.

When surveying the world economic situation, some Americans feel guilt over our comparative wealth and comfort in contrast to the millions living at the subsistence level. Our size, power, and wealth appear to some as being of little value unless we use that wealth to help the less fortunate. We send food, money, training advisors, educators, and missionaries around the world in a sincere effort to help others. These efforts have been undertaken by individuals, religious and social organizations, charitable associations, and the government. As believers in voluntarism and limited government, it is inappropriate for us to criticize how individuals freely spend their money. However, when the government coerces us through taxation to send aid overseas, we often have cause to object to the way our involuntary contribution is being spent on activities that appear unnecessary, wasteful, or even counterproductive.

Sometimes efforts to feed the starving prove well-intentioned, but sadly ineffectual. Even if the entire U.S. budget were directly distributed to the poorer half of the world's population, it would amount to less than $1,000 per person, certainly not enough to cure global poverty. Of course, with both our own bureaucracy and that of the recipient nation serving as intermediaries, a lot of that $1,000 would never reach the poor, but would instead support a small army of administrators, investigators, analysts, and auditors in both countries. If the recipient country's government were less than scrupulously honest, as is all too often the case, the poor would wind up with a couple of cups of milk and grain, while the U.S. government would be bank-