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IDEAS ON LIBERTY

# Freedom, Efficiency, and *The New York Post*

by Joseph S. Fulda

In a beautiful little article, "Entrepreneurs and Their Gifts," Jane Shaw, a Contributing Editor of this journal, makes the case that entrepreneurs, even when they don't succeed, give to the economy in which they invest. A few months later in "The Economics of Errant Entrepreneurs," Israel Kirzner, a distinguished professor of economics, replies to her article with a firm, but gentle, dissent.[1] The purpose of this article is to show why a libertarian of the Austrian School who admires Professor Kirzner's work nevertheless sides with Ms. Shaw.

Ms. Shaw tells the story of Bozeman, Montana, a small town with the variety of a small city: exotic seafood restaurants, a doll furniture store, a flower shop that sells African violets only, kitchen boutiques, upscale wine shops, and a surprisingly good bookstore. According to her research, one in seven of all businesses in the county changed hands—or just began—within the year. The people of Bozeman, she writes, "get more goods and services . . . than [they] deserve," for "as a result of all these eager entrepreneurs" consumers "don't pay the full cost of the goods and services [they] buy. Instead, the providers pay in the form of lost profits and lost fortunes. [T]he consumers are the beneficiaries." "Bozeman's experience suggests," she concludes, "that an endless succession of businesses can operate without profits—as long as there are romantic optimists to take up where the disillusioned leave off."

To this Professor Kirzner replies, "[T]here is only *one* benefit to society arising out of unprofitable entrepreneurship that deserves to be treated as a fundamental advantage. All other benefits, while we may indeed be grateful for them, are likely to be enjoyed at the expense of more serious disadvantages both to others and to ourselves." That one benefit, "the central social gain from losing entrepreneurial ventures," is enjoyed "not by individuals unusual enough to enjoy the output of those overoptimistic ventures, but by all members of society insofar as they stand to gain from *superior* entrepreneurial judgment—a quality standard enforced by the severe discipline imposed on errant entrepreneurs. . . ." And, he adds, Ms. Shaw's account fails to consider that an "unprofitable venture . . . has *harmed* society insofar as it is likely to mean that it has used valuable, scarce social resources to produce goods worth *less* than other goods that could have been alternatively produced." It is Professor Kirzner's use of "social," not his flawless economic analysis, that disturbs.

As the late Russell Kirk, a supporter of capitalism but much more a believer in faith and freedom rooted in faith, wrote "I have regarded with some suspicion many practitioners of the Dismal Science. I have found economists a blinkered breed, worshiping the false god, Efficiency."[2] No doubt Dr. Kirk meant many things by this, to some of which I would surely not assent, but among those meanings surely is that the moral and spiritual claims of freedom and by implication the free economy are more compelling than its empirical claim to being the most efficient way of providing for our needs. To this proposition, I wholeheartedly assent.

Entrepreneurs act, as George Gilder reminds us, on faith. Their faith is only partly

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in their ability to turn their investment into profits. It is also their faith in themselves and in their ability to make their respective dreams come true. And, if their faith in themselves should not be vindicated, we should offer praise for their having been so brave as to try despite the odds. And, those odds—two out of three small businesses fail within five years—are what make entrepreneurship an act of faith. Moreover, whatever resources are misallocated by the experiments of the entrepreneur are *his* to allocate, *his* to lose. It is uniquely American to allow everyman, no matter how high the odds of failure, to pursue the American dream in his own way. And, by implication, it is his right to decide when he has failed. If he is able to sustain losses for even five consecutive years and still maintains his faith in his dream, let us remember that few, indeed, are the enterprises that don't at first sustain losses. The experiment is over and the final judgment on the allocation or misallocation of resources is in only when the entrepreneur closes the doors to his business, through bankruptcy, abandonment, or, more frequently, as Jane Shaw writes, through change of ownership. "Where there's life there's hope" applies to businesses as to persons and an enterprise that one man would close after years of successive losses, another man with greater faith in himself might keep open long enough to see his losses subside, ultimately turning to ever-greater profits.

Let us take *The New York Post*, the only conservative daily in New York City. For years, the *Post* has been unprofitable and it has changed hands many times. No doubt the expertly argued commentary and the adroitly written editorials by Eric Breindel and the other members of the editorial board are, in Professor Kirzner's words, "catering to the tastes of a too-narrow group of consumers," but as one of their number I wouldn't have it any other way. Nor do I think that the successive owners of the *Post* are necessarily among the "entrepreneurial fools and romantic optimists" of Professor Kirzner's vision. Indeed, their vast holdings of successful enterprises shows that the former they are clearly not and, as for the latter, well, I don't know. True, each time the *Post* goes on the table, the new owner or prospective owner insists he will turn it around, but few in the small New York conservative camp believe them. They *are* acting, in part, out of altruism—or egoism, if you will; they want to own something they value and that they think is of social value, even if it means that they suffer losses year after year. But whether they are romantic optimists, altruists, or egoists is of no real interest to me: What interests me is the *Post* itself and ensuring that entrepreneurs have every bit as much freedom to pile up losses as to pile up profits.

Indeed, the argument for freedom *in se* over efficiency is morally imperative, if, as a Judeo-Christian society, we are to look with benevolence on all forms of voluntary charity. Isn't it better for the failing entrepreneur to be given an influx of new capital by a benevolent friend than to be simply told to close his business and take a charitable contribution in cash or in kind? Certainly, it is better for both the giver and the recipient, as *they* see it, and arguments that it is worse for society at large to have a lot of capital misallocated rather than a smaller sum go directly to charity presume that moral philosophy must follow economic science, when, in fact, it is the other way around. Let us be free to be both romantic optimists and charitable men. We need not worry that the free economy will not ensure efficiency because of such men, for as Professor Kirzner so rightly points out, one must *have* capital in order to invest it and the market will simply not allow unlimited optimism or charity. But where exactly those limits are is decided in freedom. Let us not worship the false god of efficiency. □

1. Jane S. Shaw, "Entrepreneurs and Their Gifts," *The Freeman*, April 1987, pp. 124–125; Israel M. Kirzner, "The Economics of Errant Entrepreneurs," *The Freeman*, August 1987, pp. 301–302. Both essays have been reprinted in *Free to Try* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1995).
2. Quoted in *The New York Post*, June 1, 1994.

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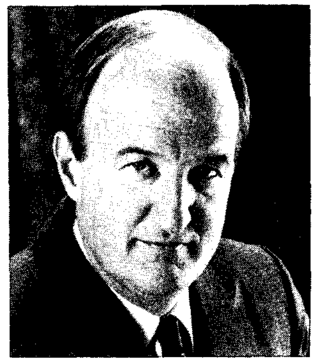

# $4,000 A Month From Social Security?

"Social Security will remain nicely in balance for at least the next 20 years . . . If it ain't broke, don't tinker."

—Prof. Robert Kuttner,
*Business Week*, February 20, 1995

Professor Kuttner, the American Association of Retired Persons (AARP), and other apologists for the current Social Security system don't get it. The real issue is not whether the national pension program is solvent or not. It is not a question of whether to reduce Social Security payouts, defer retirements, assess a means test or raise FICA taxes again. Congress has attempted all of the above, and the system is still fundamentally unsound.

The real problem is simple: Social Security is a lousy retirement program and, as a result, imposes a huge drag on the U.S. economy and every other nation with a similar plan. FICA taxes cut deep into the pockets of every worker and every business. Payroll taxes have increased 17 times, from 2 percent of wages, up to a maximum of $60, in 1937, to 12.4 percent, up to a maximum $6,438.00 today. To cover future payouts beyond 2015, experts predict taxes will have to rise to 17 percent of gross income. When is this craziness going to stop?

The tragic irony of Social Security is that it is a forced savings plan that doesn't contribute one dime to real savings. That's because Social Security is a pay-as-you-go system. Contributions are immediately paid out in benefits. FICA taxes go either to (a) pay current Social Security retirees, who use the money to pay bills, or (b) the Social Security Trust Fund, which invests entirely in T-bills, in other words, government spending. In short, payroll taxes are consumed, not saved. As Professor Joseph Stiglitz states, "the Social Security program is a tax program, not a savings account."

## Social Security vs. Individual Retirement Accounts

Imagine what would happen if Social Security taxes were invested in Individual Retirement Accounts, so that wage earners could invest in stocks and bonds. In other words, what would be the effect if Social Security funds were invested in free-enterprise capitalism, rather than government transfer programs?

Such a study has just been completed by William G. Shipman, principal at State Street Global Advisors in Boston, Massachusetts. He analyzed two workers, one earning half the national average wage (approximately $12,600 in today's wages), and the other making the maximum covered earnings ($61,200 today). A low-income earner who retires this year will receive $551 a month from Social Security. But if he had

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