we learn slowly, but *economics* — that we *do not* learn!

This incredible lag is intolerable. Adam Smith published the *Wealth of Nations* in 1776. It had its limitations, but it was a tremendous step forward. John Dalton proposed the basis of modern atomic theory a generation later. His ideas were inadequate, too, but a real milestone in human progress, and the reader cannot help knowing something of the enormous strides we have made, for good or ill, in the last century and a half.

In the economic realm we made great progress for a time, but have since reverted to sixteenth century mercantilism with all its maladjustments, frustrations, and inevitable tendencies toward war. As Bastiat said more than a hundred years ago: "When goods don't cross frontiers, armies will." Tensions mount hourly and, too often, technological advances are canceled out by more mercantilist restrictions, or are devoted to mankind's destruction.

If we were only back with John Dalton and his harmless atom of 1803! The tragedy of our age is that we have gotten so far ahead of John Dalton but have failed to catch up with Adam Smith — or with Moses and the Moral Law, for sound economics and good ethics are one and the same. The great unfinished task of the twentieth century is to rid our economic and moral philosophy of rats, fleas, and fallacies.

HANS F. SENNHOLZ

On Private Property and Economic Power

IN THEIR DENUNCIATION of our social order the socialists usually follow two patterns of attack. While some depict in glowing colors the desirability of socialism, others describe the alleged horrors of the individual enterprise system. In his *Moral Man and Immoral Society* Reinhold Niebuhr mainly adheres to the latter while pleading the case for socialism. This book virtually "made" Niebuhr when it appeared in 1934. It provides the lenses through

Dr. Sennholz is Professor of Economics at Grove City College, Pennsylvania.

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which many people, even today, view social problems.

We agree with Niebuhr that power is evil and ought to be distrusted. But "only the Marxian proletarian," says Niebuhr, "has seen this problem with perfect clarity. If he makes mistakes in choosing the means of accomplishing his ends, he has made no mistake either in stating the rational goal toward which society must move, the goal of equal justice, or in understanding the economic foundations of justice." (pp. 164-165) Only the Marxian proletarian has recognized this.

When Niebuhr speaks of the "ruling classes" – by which he means the defenders of capitalism – he uses harsh terms such as "prejudice," "hypocrisy," and "dishonesty." Their reasoning, religion, and culture, according to Niebuhr, "are themselves the product of, or at least colored by, the partial experience of the class." (pp. 140-141) In other words, anyone defending individual freedom, private property, and enterprise, is unmasked as an advocate of the special privileges and interests of the bourgeois class.

According to Niebuhrian philosophy the population is divided into economic classes whose interests differ radically from each other. But only the Marxian proletarian strives at rational goals toward which a just society must move. The individual enterprise order is corrupt and unjust because it is built on the special interests and economic powers of the bourgeois class.

All three suppositions are fallacious. There are no classes, no class privileges in the society contemplated by the classic philosophers and economists. Before the law everyone is to be treated equally. The ancient privileges of rank, estate, or class were abolished by repeal legislation during the eighteenth and nineteenth centuries.

Private Wealth Consists of Capital

Private property is no special privilege enjoyed by the bourgeois class. It is a natural institution that facilitates orderly production and division of labor. Private ownership of the means of production is in the interest of everyone, for it assures the most economic employment of scarce resources. The efficient entrepreneur, who produces what the people want in the most efficient manner, acquires control over productive capital. His wealth mainly consists of capital employed in the production of goods for the people.

The critics of capitalism who deplore the great differences between the wealthy industrialist and workingmen overlook this

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characteristic of the industrialist's wealth. His wealth does not consist of idle luxuries, but of factories, machines, and equipment that produce for the people, give employment, and yield high wages. It is true the successful entrepreneur usually enjoys a higher standard of living than his employee. The car he drives may be a later model. The suit he wears may be custom-made and his house may have wall-to-wall carpeting. But his living conditions do not differ essentially from those of his workers.

Economic Power Is Derivative

The businessman's power is derived from the sovereign power of consumers. His ability to manage wisely the factors of production earns him the consumer's support. This is not anchored in legal privilege, custom, or tradition, but in his ability to serve the only sovereign boss of the capitalist economy: the consumer. The businessman, no matter how great his powers may appear, must cater to the whims and wishes of the buyers. To neglect them spells disaster to him.

A well-known example may illustrate the case. Henry Ford rose to fame, wealth, and power when he produced millions of cars that people liked and desired. But during the late 1920's their tastes and preferences began to change. They wanted a greater variety of bigger and better cars which Ford refused to manufacture. Consequently, while other companies such as General Motors and Chrysler grew by leaps and bounds, the Ford enterprise suffered staggering losses. Thus the power and reputation of Henry Ford declined, for a time, as rapidly as it had grown during the earlier decades.

It is true, a businessman probably can afford to disregard or disappoint a single buyer. But he must pay the price in the form of lower sales and earnings. If he continuously disappoints his buyers, he will soon be eliminated from the rank of entrepreneurs.

It is also true that a businessman may be rude and unfair toward an employee. But he must pay a high price for his arbitrariness. His men tend to leave him and seek employment with competitors. In order to attract the needed labor, the businessman in ill repute will have to pay a premium above the wages paid by more considerate competitors. But higher costs lead to his elimination. If he pays lower wages, he loses his efficient help to his competitors, which, too, entails his elimination.

A successful businessman is dependable, reliable, and fair. He

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endeavors to earn the trust and goodwill of his customers as well as of his workers. In fact, the businessman's striving for goodwill may shape a colorless personality. In order to avoid controversy and hostility, he mostly withholds or even refrains from forming an opinion on political or economic issues. Many businessmen aim to be neutral with regard to all controversial problems and issues.

Capitalism a Haven for Workingman

A capitalist society is a haven for workingmen who are the greatest beneficiaries of its order. One merely needs to compare the working and living conditions of the American worker with those of his colleagues in noncapitalistic countries, such as India or China. He is the prince among the world's laborers; his work week is the shortest, his physical exertion the least, and his wages are by far the highest.

The millionaire is less enviable in capitalism than in noncapitalist societies. His wealth mainly consists of capital investments which he must defend continuously in keen competition with other businessmen. His consumptive wealth, which is a minor fraction of his total wealth, probably is rather modest. But the Indian millionaire, most likely a rajah, is not concerned with production and competition. He resides in a huge mansion, surrounded by his harem and catered to by dozens of eager servants. He certainly does not envy the American industrialist, however great the latter's wealth may be.

Socialism, whether of Marxian, Fabian, Nazi, or Fascist brand, does not promote equality, but instead creates tremendous inequalities. It gives rise to a new class of political and economic administrators whose powers of economic management are unlimited and absolute. It eliminates the sovereign power of consumers and the agency powers of businessmen. It substitutes omniscient rulers and an omnipotent state for the people's freedom of choice and discretion.

It may be true that the Marxian worker actually strives for the realization of such a society; but contrary to Niebuhr's beliefs, his endeavors certainly benefit neither society nor himself. Blinded and misguided by socialist syllogisms, he promotes a social order that will enslave and impoverish him. Thus he destroys the very order that has freed him from serfdom and starvation.

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A. M. SULLIVAN

The Competitive Spirit

SALMON bred from roe in fisheries have a rough time of it when released in tidal waters. The synthetic environment which eliminates danger also dulls the competitive instinct so necessary for survival in a cannibalistic world. The way of nature is rough and hard, whether it is hound against hare, falcon against dove, midge against elm, or crab grass against Kentucky blue.

Risk is the price of a day's adventure. Complete security is an obvious contradiction in terms, just as 100 per cent insurance against any danger or difficulty is as meaningless as it is unwarranted. Risk is an inherent quality in life, and with risk is the compensating impulse to survival which is competition.

For instance, thousands of business enterprises fail each year, with financial loss to suppliers and personal loss to proprietors. Can commercial insolvency be prevented? Not entirely. Not in a competitive economy. The right to fail is just as inherent in free enterprise as the right to succeed. Commercial failure is part of the normal wear and tear on the machinery of production and distribution. However, risk implies caution, and caution comes with understanding and experience of the hazards of "going to market." Most commercial failures are personal failures caused by a mixture of overconfidence and undertraining for the responsibility.

For more than a century, Dun & Bradstreet has maintained commercial insolvency records, and although the rate of failure fluctuates with good times and bad, the reasons for failure are consistent. Most failures are due to controllable errors in the judgment of men, rather than "acts of God" in

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Mr. Sullivan is Editor of *Dun's Review and Modern Industry* in the March 1960 issue of which this editorial first appeared.

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