

Private Ownership

.... A MUST!

HENRY HAZLITT

EDITOR'S NOTE: Henry Hazlitt, well-known economic journalist and scholar, has written many books, including a novel about the rediscovery of capitalism by a young Russian after all the economic and political writing of the past, except that of the Marxists, has been wiped out. The hero, Peter Uldanov, performs the prodigious feat of recreating by his own mental effort ideas that it has in fact taken generations of great economists to develop and refine.

This novel, originally appearing in 1951 as *The Great Idea*, was revised and republished in 1966 as *Time Will Run Back* with a new Preface from which this article is drawn by permission of the publisher.

Time Will Run Back may be obtained from Arlington House, 81 Centre Avenue, New Rochelle, N. Y. 10801. 368 pp., \$6.00.

IF CAPITALISM did not exist, it would be necessary to invent it — and its discovery would be rightly regarded as one of the great triumphs of the human mind. But as “capitalism” is merely a name for freedom in the economic sphere, the theme might be stated more broadly: The will to freedom can never be permanently stamped out.

Under complete world totalitarianism (in which there was no free area left from which the totalitarian area could appropriate the fruits of previous or current discovery and invention, or in which its own plans could no longer be parasitic on knowledge of prices and costs as determined by capitalistic free markets) the world would in the long run not only stop progressing but actually go backward technically as well as economically and morally — as the world went backward and remained backward for centuries after the collapse of Roman civilization.

A centrally directed economy cannot solve the problem of economic calculation, and without private property, free markets, and freedom of consumer choice, no organizational solution of this problem is possible. If all economic life is directed from a single center, solution of the problem of the exact amounts that should be pro-

duced of thousands of different commodities, and of the exact amount of capital goods, raw materials, transport, etc. needed to produce the optimum volume of goods in the proper proportion, and the solution of the problem of the *coordination and synchronization* of all this diverse production, becomes impossible. No single person or board can possibly know what is going on everywhere at the same time. It cannot know what real costs are. It has no way of measuring the extent of waste. It has no real way of knowing how inefficient any particular plant is, or how inefficient the whole system is. It has no way of knowing just what goods consumers would want if they were produced and made available at their real costs.

The System Breaks Down

So the system leads to wastes, stoppages, and breakdowns at innumerable points. And some of these become obvious even to the most casual observer. In the summer of 1961, for example, a party of American newspapermen made an 8,000-mile conducted tour of the Soviet Union. They told of visiting collective farms where seventeen men did the work of two; of seeing scores of buildings unfinished “for want of the proverbial nail”; of traveling in a land virtually without roads.

In the same year even Premier Khrushchev complained that as of January 1 there were many millions of square feet of completed factory space that could not be used because the machinery required for them just wasn't available, while at the same time in other parts of the country there were the equivalent of hundreds of millions of dollars worth of machinery of various kinds standing idle because the factories and mines for which this machine was designed were not yet ready.

At about the same time G. I. Voronov, a Communist party Presidium member, said: "Who does not know that the national economy suffers great difficulties with the supply of metals, that the supply of pipes is inadequate, that insufficient supplies of new machinery and mineral fertilizers for the countryside are produced, that hundreds of thousands of motor vehicles stand idle without tires, and that the production of paper lags?"¹

In 1964 *Izvestia* itself was complaining that the small town of Lide, close to the Polish border, had first been inundated with boots, and then with caramels — both products of state factories. Complaints by local shopkeepers that they were unable to sell all these goods were brushed aside on

the ground that the factories' production schedules had to be kept.

Such examples could be cited endlessly, year by year, down to the month that I write this. They are all the result of centralized planning.

The most tragic results have been in agriculture. The outstanding example is the famine of 1921-22 when, directly as a result of collectivization, controls, and the ruthless requisitioning of grain and cattle, millions of peasants and city inhabitants died of disease and starvation. Revolts forced Lenin to adopt the "New Economic Policy." But once more in 1928 more "planning" and enforced collections of all the peasants' "surpluses" led to the famine of 1932-33, when more millions died from hunger and related diseases. These conditions, in varying degree, come down to the present moment. In 1963 Russia again suffered a disastrous crop failure. And in 1965, this agrarian nation, one of whose chief economic problems in Tzarist days was how to dispose of its grain surplus, was once more forced to buy millions of tons of grains from the Western capitalist world.

Problems in Industry

The industrial disorganization has been less spectacular, or better concealed—at least if we pass over

¹ See *New York Times*, Oct. 29, 1961.

that in the initial phase between 1918 and 1921. But in spite of extravagant claims of unparalleled "economic growth," Russia's problems of industrial production have been chronic. Since factory output goals are either laid down in weight or quota by the planners, a knitwear plant recently ordered to produce 80,000 caps and sweaters produced only caps, because they were smaller and cheaper to make. A factory commanded to make lampshades made them all orange, because sticking to one color was quicker and less trouble. Because of the use of tonnage norms, machine builders used eight-inch plates when four-inch plates would easily have done the job. In a chandelier factory, in which the workers were paid bonuses based on the tonnage of chandeliers produced, the chandeliers grew heavier and heavier until they started pulling ceilings down.

The system is marked by conflicting orders and mountains of paperwork. In 1964 a Supreme Soviet Deputy cited the example of the Izhora factory, which received no fewer than 70 different official instructions from nine state committees, four economic councils, and two state planning committees — all of them authorized to issue production orders to that plant. The plans for the Novo-Lipetsk steel mill took up 91 volumes com-

prising 70,000 pages, specifying precisely the location of each nail, lamp, and washstand.

Yet in 1964, in Russia's largest republic alone, deliveries of 257 factories had to be suspended because their goods were not bought. As a result of the consumer's stiffening standards and increased inclination to complain, \$3 billion worth of unsellable junk accumulated in Soviet inventories.²

Remedial Measures

Such conditions have led to desperate remedial measures. In the last couple of years, not only from Russia but from the communist satellite countries, we get reports of massive decentralization programs, of flirtations with market mechanisms, or more flexible pricing based on "actual costs of production" or even on "supply and demand." Most startling, we hear that "profits" is no longer a dirty word. The eminent Russian economist, Liberman, has even argued that profit be made the foremost economic test. "The higher the profits," he has said, "the greater the incentive" to quality and efficiency. And equally if not more miraculous, the Marxian idea that interest represents mere exploitation is being quietly set aside, and in an effort to produce

² For the foregoing and other examples, see *Time*, Feb. 12, 1965.

and consume in accordance with real costs, interest (usually at some conventional rate like 5 per cent) is being charged not only on the use of government money by shops and factories, but against the construction costs of plants.

On the surface all this looks indeed revolutionary (or "counter-revolutionary"); and naturally I am tempted to hope that the communist world is on the verge of rediscovering and adopting a complete capitalism. But several weighty considerations should warn us against setting our hopes too high, at least for the immediate future.

The "New Economic Policy"

First, there is the historical record. This is not the first time that the Russian communists have veered toward capitalism. In 1921, when mass starvation threatened Russia and revolt broke out, Lenin was forced to retreat into his "New Economic Policy," or NEP, which allowed the peasants to sell their surplus in the open market, made other concessions to private enterprise, and brought a general reversion to an economy based on money and partly on exchange. The NEP was actually far more "capitalistic," for the most part, than recent reforms. It lasted till 1927. Then a rigidly planned economy was re-imposed for almost

forty years. But even within this period, before the recent dramatic change, there were violent zigs and zags of policy. Khrushchev announced major reorganizations no fewer than six times in ten years, veering from decentralization back to recentralization in the vain hope of finding the magic balance.

He failed, as the present Russian imitation of market mechanisms is likely to fail, because the heart of capitalism is private property, particularly private property in the means of production. Without private property, "free" markets, "free" wages, "free" prices are meaningless concepts, and "profits" are artificial. If I am a commissar in charge of an automobile factory, and do not own the money I pay out, and you are a commissar in charge of a steel plant, and do not own the steel you sell or get the money you sell it for, then neither of us really cares about the price of steel except as a bookkeeping fiction. As an automobile commissar I will want the price of the cars I sell to be set high and the price of the steel I buy to be set low so that my own "profit" record will look good or my bonus will be fixed high. As a steel commissar you will want the price of your steel to be fixed high and your cost prices to be fixed low, for the same reason. But with all means of production

owned by the state, how can there be anything but artificial competition determining these artificial prices in such "markets"?

In fact, the "price" system in the USSR has always been chaotic. The bases on which prices are determined by the planners seem to be both arbitrary and haphazard. Some Western experts have told us (e.g., in 1962) that there were no fewer than five different price levels or price-fixing systems in the Soviet Union, while others were putting the number at nine. But if the Soviet planners are forced to fix prices on some purely arbitrary basis, they cannot know what the real "profits" or losses are of any individual enterprise. Where there is no private ownership of the means of production there can be no true economic calculation.

Elusive Costs of Production

It is no solution to say that prices can be "based on actual costs of production." This overlooks that costs of production are themselves prices—the prices of raw materials, the wages of labor, etc. It also overlooks that it is precisely the *differences* between prices and costs of production that are constantly, in a free market regime, redirecting and changing the balance of production as among thousands of different com-

modities and services. In industries where prices are well above marginal costs of production, there will be a great incentive to increase output, as well as increased means to do it. In industries where prices fall below marginal costs of production, output must shrink. Everywhere supply will keep adjusting itself to demand.

But in a system only half free—that is, in a system in which every factory was free to decide how much to produce of what, but in which the basic prices, wages, rents, and interest rates were fixed or guessed at by the sole ultimate owner and producer of the means of production, the state—a decentralized system could quickly become even more chaotic than a centralized one. If finished products M, N, O, P, etc. are made from raw materials A, B, C, D, etc. in various combinations and proportions, how can the individual producers of the raw materials know how much of each to produce, and at what rate, unless they know how much the producers of finished products plan to produce of the latter, how much raw materials they are going to need, and just *when* they are going to need them? And how can the individual producer of raw material A or of finished product M know how much of it to produce unless he knows how much of that

raw material or finished product others in his line are planning to produce, as well as relatively how much ultimate consumers are going to want or demand? In a communistic system, centralized or decentralized, there will always be unbalanced and unmatched production, shortages of this and unusable surpluses of that, duplications, time lags, inefficiency, and appalling waste.

Private Property the Key

It is only with private property in the means of production that the problem of production becomes solvable. It is only with private property in the means of production that free markets, with consumer freedom of choice and producer freedom of choice, become meaningful and workable. With a private price system and a private profit-seeking system, private actions and decisions determine prices, and prices determine new actions and decisions; and the problem of efficient, balanced, coordinated, and synchronized production of the goods and services that consumers really want is solved.

Yet it is precisely private property in the means of production that communist governments cannot allow. They are aware of this, and that is why all hopes that the Russian communists and their

satellites are about to revert to capitalism are premature. Only a few months ago the Soviet leader, Kosygin, told Lord Thomson, the British newspaper publisher: "We have never rejected the great role of profits as a mechanism in economic life. . . [But] our underlying principle is inviolate. There are no means of production in private hands."³

The communist rulers cannot permit private ownership of the means of production not merely because this would mean the surrender of the central principle of their system, but because it would mean the restoration of individual liberty and the end of their despotic power. So I confess that the hope that some day an idealistic Peter Uldanov, miraculously finding himself at the pinnacle of power, will voluntarily restore the right of property, is a dream likely to be fulfilled only in fiction. But it is certainly not altogether idle to hope that, with a growth of economic understanding among their own people, the hands of the communist dictators may some day be forced, more violently than Lenin's were when the mutiny at Kronstadt, though suppressed, forced him to adopt the New Economic Policy.

Yet any attempt to decentralize

³ *New York Herald-Tribune*, Sept. 27, 1965.

planning while retaining centralized ownership or control is doomed to failure. As a recent writer explains it:

If the state owns or controls the major resources of the economy, to allow for local autonomy in their utilization invites utter chaos. The Soviet planners, then, are caught on the horns of a serious dilemma. They

find that their economy is becoming too complex and diverse to control minutely from above; yet they cannot really achieve the tremendous productiveness of a decentralized economy without relinquishing complete ownership or control of the nation's resources.⁴ ◆

⁴ G. William Trivoli in *National Review*, March 22, 1966.



Inflation Erodes Investment

INFLATION reduces the value of financial assets such as savings accounts, bonds, pension plans and insurance policies. These investments have a constant face value, and rising prices mean the dollars a person gets back will buy less than the ones he put in. Inflation, therefore, tends to shift purchasing power from these investors, who are essentially lenders, to borrowers.

The notion once was popular that lenders were usually rich and borrowers often poor. If this idea ever were true, it is no longer valid in these affluent times. Surveys show that every income grouping of individuals — even the lowest — now has more financial assets than indebtedness. Put another way, every income group is a net lender, on the average, and thereby stands to lose purchasing power through inflation. Who are the “poor” debtors who stand to gain? All levels of government rank high among them.

It would be disastrous if inflation caused a reduction in the amount of money saved and invested in new or expanded factories, offices, farms, and stores. This process is the mainspring of economic growth and, because of modern technology, requires huge amounts of extra funds every year.

*From Inflation and/or Unemployment by
Lawrence C. Murdoch, Jr., Federal Reserve
Bank of Philadelphia.*

Mr. Kappel's Dilemma

LEONARD E. READ

ON APRIL 3, 1967, Postmaster General Lawrence O'Brien told a gathering of magazine publishers and editors that the Post Office Department should be turned over to a nonprofit government corporation. He eloquently conceded the failure of government mail delivery:

Had the A T & T been operated as has the Post Office Department, the carrier pigeon business would have a bright future.

A few days later President Johnson named Mr. Frederick Kappel, the recently retired head of A T & T, as chairman of a 10-man Commission to report within one year what should be done about mail delivery.

Here is the dilemma of Mr. Kappel and his Commission:

1. To recommend a modified form of state ownership and operation, such as a nonprofit government corporation, would simply postpone any correction of the present inefficiency and waste.

2. To recommend what *should be done*, that is, let anyone deliver mail for whatever rates users will pay, would appear too incredible to the President, the Congress, and the people for the proposal to be accepted.

In a word, Mr. Kappel's Commission will be damned if it does and damned if it doesn't!

Thus, the Commission may decide not to disregard the Postmaster General's suggestion of a nonprofit government corporation. This, of course, is still the state ownership and operation of the industry: socialism. Nor will it be