

PAUL L. POIROT

THE RESULTS, after more than 30 years of Federal "war on poverty" in America, suggest that the campaign has failed. "Instead of temporary aid, relief has become a permanent way of life for millions. Second and third generations of families now live on relief."<sup>1</sup> Nor is it that the millions in this new class of poverty-stricken are simply destitute of the material manifestations of private property. Far worse; many have lost their self-respect and the respect of their fellow men; they have lost their human dignity. What can these persons claim as their own?

Respect for the dignity of an individual presumes him to be re-

sponsible for the development and use of his faculties, his qualities, his properties. The personal freedom of choice that is liberty depends upon self-control and possession or ownership in the form of private property. And consistent with this concept of human dignity and private property is the right of the individual to make his own mistakes, if he so chooses, and to abide by the consequences — to know the penalties of improper choice and action as well as the fruits of success.

"Property is desirable, is a positive good in the world," said Abraham Lincoln. "That some should be rich shows that others may become rich and hence is just encouragement to industry and en-

<sup>1</sup> *U. S. News & World Report*, July 17, 1967, p. 44.

terprise. Let not him who is houseless pull down the house of another, but let him work diligently to build one for himself, thus by example assuring that his own shall be safe from violence."

Lincoln understood that poverty is not to be overcome by warlike or compulsory measures, but by peaceful example. Not by pulling down the house of another, not by destroying another's life or character or estate, but by each man working diligently to build one for himself.

A property owner, of course, might be able to live upon his own resources. But few of us nowadays would be content with such a subsistence level of living. We have grown accustomed to the advantages of specialized production and peaceful exchange of goods and services. Such voluntary exchange also depends on private property. Every trader is a property owner and his own man. Something to offer is his ticket of admission to the market — his purchasing power.

#### ***For Property Owners Only***

This requirement for trade gives rise to a common complaint about the so-called tyranny of the market economy: that it tends to be exclusive — for property owners only. The fact that a buyer's purchasing power depends upon what

he has to offer is said to be undemocratic and unfair; it doesn't afford everyone everything he wants. Some even argue that "property is theft," in the belief that any accumulations of private property must have impoverished other people.

Such beliefs might have been justified under various conditions of the past — might be justified in some parts of the world today. A slave owner, for example, acquires and holds his slaves by force, and thus impoverishes them. Tribal wars for territory or other property leave the losers poorer to the extent of the victors' spoils. But in a trading society as we know it, property required for production and marketing can only be accumulated and retained by an owner insofar as he uses it as consumers want him to. Otherwise, he's out of business.

The complaint that not everyone can have everything he wants should be leveled, not against the market and the private ownership of property, but against the nature of things. The real world is characterized by unlimited human wants and limited means, not the other way round. Any realistic social system must consider not only the boundless appetites of consumers but also the conservation and efficient use of scarce resources.

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Ours is not a world that affords abundance for consumption without productive effort or other thought for the source of supply. This is why it is important to understand the basic principles and practices of private ownership and control of scarce resources. These are essential features of any peaceful society.

#### ***Regulated by Competition***

To say that a prosperous market economy depends upon respect for private property is the truth but not the whole truth. Private ownership and control, of itself, does not assure the most efficient use of scarce resources in service to others. That assurance comes as a result of competition. This is not to say that competitors are solely interested in pleasing customers. But catering to the wishes of customers is the surest and easiest way to have and to hold valuable, scarce items. The fact that two or more businessmen bid for possession and use of the same resource is the consumer's guarantee that it will be used efficiently to serve him. Consumers pay handsomely for efficient serv-

ice and thus determine who, among various competitors, is to own and control the means of production.

Competition for property is the great moderator or regulator of temptations to abuse the privileges of private ownership. Competition, of course, cannot force anyone to buy or sell at a price unacceptable to him. But competitors can make trading difficult for those who expect something for nothing. Competition is truly the life of trade—a powerful, peaceful influence for honest and efficient service by those who hope to own and control the use of property.

Nor is the moderating force of competition confined to the supplier side of the exchange process. Consumers also compete against one another for available supplies. The resultant level of market prices tempers appetites, rations scarce items, requires responsible performance by those who are to receive goods and services in exchange for their own. The market will no more serve consumers who demand something for nothing than it will tolerate the false ad-

vertising of fraudulent suppliers. So, competition is a form of peaceful "policing" of the market. It tends to keep buyers and sellers honest in their trading and efficient in their use of ever-scarce resources.

### **Voluntary or Compulsory**

Let it be clear that our discussion thus far pertains to the so-called "private sector" of the economy — the production, the saving and investment, the trading of goods and services, and the personal consumption practices that result from voluntary choices of buyers and sellers in open competition. And it bears repeating that the "private sector" market is a voluntary association of property owners for the purpose of trading to their mutual advantage. Admittance to the market is gained by having something to offer. True, such offerings constitute the means for the satisfaction of the wants of consumers. But the expressed wants of consumers do not necessarily constitute a market situation. A combination of consumers to satisfy their wants could very well be a den of thieves.

When the power of government is invoked to plunder property, in the name of war on poverty, any receiver of such loot must recognize that he possesses it at his own risk. The "human right" to

plunder is a denial of the right to own and control property. It simply proclaims that might makes right; and that's a rough game for the meek and weak. That is precisely how thieves operate: non-owners deciding how an owner may or may not use his property.

The more we observe and become involved in the government war on poverty, the clearer comes the message: *War against poverty is war against property, and war against property is war against the poor.*

### **Monetary Misunderstanding**

Much of the confusion about all this may be traced to the love of money, under the illusion that money as such is wealth. True, at a given moment, a quantity of money given to a poor person will enable him to buy goods and services otherwise beyond his reach. But his level of living depends upon the goods and services rather than the money. And redistributing the money supply does nothing as such to increase the total available supply of goods and services. It simply transfers buying power from one person to another. Such transfer, however, has important consequences.

*Who buys what* affects price and consumption and saving and production patterns throughout the economy. When money is taxed

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from one person and given to another, to equalize wealth, there is the strong probability that goods and services will be diverted from productive use to immediate consumption. Taxing the fruits of saving and productive effort discourages thrift and work. Subsidizing idleness increases it. This is the reason why compulsory socialism has failed to relieve poverty when and wherever it has been tried. It redistributes the money supply, but with consequences that waste resources and lives and lead relentlessly toward famine.

The formula, "from each according to his ability and to each according to his need," simply empties the breadbasket faster than it can be filled. Within our lifetimes we have seen this happening in Russia, Red China, India, Cuba, and other nations willing to accept every gift the free world has offered—but not willing to practice freedom. And perhaps the most dramatic of all examples was afforded by the history of the Plymouth Colony in the New World. The first years of communal effort, pooling the harvest and sharing "according to need," were marked

by dissension, dearth, and death. Fortunately, the settlers then tried private ownership of the land and the fruits of each owner's labor; and hunger and famine have been unknown in the land since that change.

***Socialism Fails to Arrange  
for Further Production***

The reason why socialism fails to relieve poverty comes clearer if one looks behind the monetary screen. Then it may be seen that material wealth is comprised of hoes and rakes and wheelbarrows, among other things.

Taking from a worker half the tools he needs to do a decent job (or taking them from that worker's employer) and dividing the proceeds among the poor in the form of consumer goods lowers the production potential of such a society. It's a grasshopper's way of high living for the moment and no thought for the morrow. The industrial revolution, that makes for a high level of production and a high level of living for all industrious and thrifty members of society, is contingent upon respect for private property in the hands

of those who have earned and saved it for a purpose. Owners of tools are in a position to hire others to help them use those tools for productive purposes. As previously discussed, competition obliges the owners of resources to use them efficiently and in a responsible manner.

The public-sector war on property includes various governmental programs of a socialistic nature such as outlined by Marx and Engels in *The Communist Manifesto*. And these may be studied at close range without traveling to Russia or Red China or Cuba. What country today lacks experience with price supports and price ceilings, rent controls, minimum wage and maximum profit laws, rate regulations and other controls over interest, electricity, gas, water, housing, garbage disposal, communications, travel, insurance, banking, and what not? Where in today's world is a person free to assume his own risks against the vicissitudes of old age, illness, illiteracy, illegitimacy, indigence, and unemployment instead of being taxed for everybody else's benefit? What country is free of such protectionist measures as tariffs, quotas, embargoes, and similar restraints of trade? All these are forms of plunder, war on property, class warfare in the Marxian sense.

### **Helping the Aged**

Most of us readily recognize plunder when it takes the form of force applied to a person or to his property by an authoritarian dictator or by some unlicensed crook. But what do we make of a proposition like this from President Johnson's "Message on Older Americans" addressed to Congress last January?

"We should look upon the growing number of older citizens, not as a problem or a burden for our democracy, but as an opportunity to enrich their lives, and, through them, the lives of all of us."

The President was advocating further expansion of the social security program originally enacted in 1935. After all these years, who could possibly question so worthy a goal as helping ourselves by helping the aged? Yet, compulsory social security is a plundering game, perhaps more harmful in the long run simply because its ultimate impact was so dimly foreseen in the beginning.

The social security tax bill has doubled on the average every six years since the first collections in 1937. It amounted to \$20 billion in 1966 and threatens, under new proposals, to double again by 1974. A younger worker, facing the prospect of an annual social security tax of \$1,000 or more, sure-

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ly must suspect that this could become “a burden for our democracy.” Every taxpayer knows that taxes are a burden.

But is the taxpayer the only victim of the social security plunder game? What of the harm done the recipients of such handouts? Are their lives truly enriched by relieving them of the responsibility and the opportunity to grow out of their own errors and misfortunes? Can a life be enriched, except as it becomes more useful? Just how does a government promise of old age assistance help anyone to help himself?

We know the harmful consequences of paternalism beyond the call of duty within the family. And we also should understand the danger of paternalistic practices on a societal scale. That danger lies in the moral and economic impoverishment of the victims of such intervention.

### ***Urban Renewal***

Another campaign front in the general war on poverty has been that of Federal urban renewal. Professor Martin Anderson has admirably documented the failure

of that program.<sup>2</sup> More homes were destroyed than have been built under the program; and those destroyed were predominantly low-rent homes while those built were predominantly high-rent homes. Many of the small business firms displaced by urban renewal went out of business, while others relocated in higher-rent and higher-cost areas; very few have ever moved back into the urban renewal area. Most renewal programs decrease the tax revenues flowing into the cities' tax coffers, placing added tax burdens on presumably unaffected properties. And all programs involve the use of the power of eminent domain to take the property of some for redistribution or use by others. So, urban renewal is a form of the war against property; and the major victims have been the families of the very persons — the poor — in whose interests the program supposedly was initiated.

Not all of the various welfare programs of compulsory interven-

<sup>2</sup> Martin Anderson. *The Federal Bulldozer: A Critical Analysis of Urban Renewal, 1949-1962* (Cambridge, Massachusetts: The M.I.T. Press, 1964). 272 pp. See especially his article on page 614 of this issue of THE FREEMAN.

tion and redistribution have been as clearly cost-accounted and measured in their impact as the Federal urban renewal program has been weighed by Professor Anderson. But there is no reason to expect any other result from any of the other seizures or controls of private property intended to overcome poverty. The noblest of intentions may go unrealized. But the unforeseen and inevitable consequences are quite real.

When government sets the price of bread below the market level, there are two victims: the producer of bread who is driven out of business, and the consumer who is left waiting in line for the bread that was not produced. The victims of rent control are as much the tenants who cannot find housing space as the landlords who cannot supply it at that fixed price. Minimum wage laws injure not only the employers who cannot afford to hire at such wages but also the employees incapable of earning them. The same tariff that bars a producer from the market also bars a consumer. Every consumer subsidy is a tax upon producers, a war against property that injures the poor.

### ***The Key to Jobs***

The private ownership of resources by persons most capable of using them productively is the

key to job opportunities and more abundant living for the poor. The "lower third" and the "upper third" and the "middle class" have a common interest in protecting the private ownership of property. The jobs and livelihoods and lives of all depend upon it. Any person who hopes to sell his services ought to see that his prospects depend upon property owners. Their right to own and use property, coupled with their ability to manage it well, create job opportunities for others. If a person is not satisfied to be an employee of a property owner, he may turn to self-employment. In that case, he will need to save for tools — become a property owner himself — if he is to succeed.

So, in any case, whether a person be relatively wealthy or relatively poor, it is to his own best interest to respect and uphold the private ownership of property. When a government seizes private property, or otherwise clouds an owner's title in the name of war on poverty, it is the poor of that society who can least afford the costs of such warfare. They will be the first to starve.

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### ***Riots in History***

What is happening in the urban centers of the United States today has happened before, and in strikingly similar fashion, among over-governed and over-taxed people throughout history. Official court historians always have ascribed the inevitable rioting to such handy scapegoats as gouging merchants, greedy landlords, brutal local policemen, slave-owning ancestors, and every other reason except the real one: too much government intervention and too little personal freedom.

This is not to defend the earlier practice of slavery in America and elsewhere or the mistaken and harmful practices of shortsighted marketeers or short-tempered lawmen. Human beings make mistakes; and each such mistake has consequences that ripple through society, often for years. But human progress is not a process of building molehill mistakes of the moment into permanent mountains of misery. Unless we can learn by our errors to do otherwise, we are condemned to keep on repeating them. And our most terrible mistake is to fall upon an

earlier evil as the justification for a new one. The horrors of slavery can never be erased by a new reign of arson, looting, murder, and riotous brutality.

### ***The French Revolution: from Inflation to Napoleon***

A clearer view of current happenings in Newark, Detroit, and other trouble spots in the United States may be possible if we look back with that scholarly historian, Andrew Dickson White, at the sequence of events during the French Revolution when the United States was a mere babe in arms.<sup>3</sup>

Louis XVI had recklessly spent France to the verge of bankruptcy by 1789, and inflation was to be the "short road to prosperity." Despite abundant warnings from those who recalled the history and disaster of earlier inflationary practices, the members of the French National Assembly voted ever-larger and more frequent issues of irredeemable paper money. But the inflation, as always, ag-

<sup>3</sup> Andrew Dickson White. *Fiat Money Inflation in France* (Irvington-on-Hudson, N. Y., Foundation for Economic Education, Inc.) \$1.25 paper; \$2.00 cloth.

gravated the very evils it was proposed to cure.

What began as the confiscation of the property of the Church, the leading landlord of France at that time, became the excuse for more and more printing of worthless "assignats." This growing flood of "purchasing power" caused the skyrocketing of prices, prompting businessmen to expand operations but often in a wrong direction leading toward personal failure and bankruptcy and unemployed workers. And, as usual during inflation, wages failed to keep pace with rising costs of living. Workers' savings were exhausted, along with any reason that might have held for saving in the first place. Thus the relentless inflation took its toll from among the very poor it had promised so much to help. Meanwhile, the recklessly-spending and money-printing government had shifted the blame for rising prices onto merchants and landlords and other businessmen equally trapped by events; maximum price laws and other disrupting control measures were enacted with death penalties for violators. But the people rioted, regardless, and the guillotine eventually claimed the heads of those whose good intentions had brought on all the trouble.

And the only thing the people of France gained from that particu-

lar version of the Great Society was Napoleon!

The ways in which Louis XVI spent taxpayers' money in 1790 doubtless would seem foolish to heads of state in 1967. But there is no indication that Louis was giving the money to enemy nations, or waging war at the opposite side of the world on behalf of one unfriendly nation against other unfriendly nations, or planning to colonize the moon. It is true that modern rulers have found interesting new ways to bankrupt their country's treasury. And the resultant inflationary resort to the printing presses may be slightly more sophisticated today. But reckless spending of artificially created purchasing power still spells inflation, and today's riots by the tax-burdened and dispossessed poor of Detroit are very much the same as the riots of Paris in the 1790's.

#### ***Offering Explanations That Won't Stand Scrutiny***

It is not that some of the looters are the great grandchildren of Negro slaves; doubtless among them also are to be found the great grandchildren of slave owners and of ardent Abolitionists of a century earlier.

It is not that the rioters are poor; the poor of the world have as good a record for peace and

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honesty and brotherly love and law-abiding citizenship as have those on any other rung of the economic ladder.

Nor is it that those who flaunt the laws of the land have been denied educational opportunity; many of their provocateurs and leaders in violence are holders of college degrees with campus training for insurrection.

Our riotous friends are the unhappy victims of the false promises and bulldozer practices of the welfare state.

These are individuals who have been dispossessed, driven from the modest homes they could afford in the name of slum clearance and urban renewal and public housing. They are urban dwellers obliged to pay in higher grocery bills for an annual \$6 billion farm relief program. They are subject to draft for "somebody else's" war that seems far more likely to threaten than to strengthen American security. They are unemployed by reason of special privileges that have been extended to the leadership of organized labor unions. They are asked to pay for the protection granted industry in the

form of tariffs, quotas, embargoes, and other price-hiking barriers to world commerce. They have been guaranteed subsistence, but with shackles attached. A slave to hand-outs and subsidies, for which he himself must pay in the end, is nonetheless a slave. Stripped of his self-responsibility and his self-respect, he may not be expected to understand or respect the lives or the properties of others who have earned their rights. The poor of our nation have been promised the moon — and presented the bill! And they riot against this evil they cannot understand.

Nor is it easy to understand. The aftermath of a Watts or a Newark or a Detroit riot must appear to the careful observer very much like the gaping wounds in "demonstration cities" when the Federal bulldozer of urban renewal has taken its toll of homes and businesses and displaced persons. It may be said for the rioting, looting, and burning that it is considerably faster and less costly than the legalized method of urban demolition. But that does not excuse the violence or the destruction involved in either procedure.

And what it will cost to rebuild the wrecked homes and businesses and lives all depends on whether it is attempted by the compulsory methods of government planning and taxation or by the voluntary cooperation of self-responsible and

self-respecting individuals in the open competition of the market. What we can be certain of is that one method is warlike and the other is peaceful. And that should be sufficient reason for anyone to cast his vote for freedom. ♦

• For further readings on the important relationship between private property and personal freedom and well-being, see:

W. M. CURTISS, "Freedom Rests on Private Property," *Essays on Liberty*, Volume V, p. 170.

HENRY HAZLITT, "Private Ownership: A Must," *The Freeman*, June, 1967, p. 342.

PAUL L. POIROT, "Property Rights and Human Rights," *Essays on Liberty*, Volume II, p. 79.

LEONARD E. READ, "The Poor Should Look to Liberty," *Essays on Liberty*, Volume XII, p. 9. "When Wishes Become Rights," *Essays on Liberty*, Volume XII, p. 85.

DEAN RUSSELL, "Play Store Economics," *Essays on Liberty*, Volume XI, p. 218.

# FREEDOM AND THE CONTRACT STATE

DONALD WARMBIER

OVER 100 years ago, John Stuart Mill summed up the difficulty of preserving freedom under socialism with these words:

If the roads, the railways, the banks, the insurance offices, the great joint-stock companies, the universities, and the public charities, were all of them branches of the government; if, in addition, the municipal corporations and local boards, with all that now devolves on them, became departments of the central administration; if the employees of all these different enterprises were appointed and paid by the government, and looked to the government for every rise in life; not all the freedom of the press and popular constitution of the legislature would make this or any other country free otherwise than in name.<sup>1</sup>

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<sup>1</sup> John Stuart Mill, *The Essential Works of John Stuart Mill* (New York: Grosset & Dunlap, 1965), p. 356.

Mr. Warmbier is a student at Michigan State University.

Today, in the United States at least, the kind of formal socialism described by Mill is no longer a major threat. We now face not so much increasing state ownership of our enterprises as increasing state purchase of their products. As one writer puts it:

The old demands that government nationalize railroads, coal mines, shipping, shipbuilding, arms-making have in the last thirty years subsided from a roar to a whisper. Instead, governments as mass purchasing agents have operated increasingly. . . . It is this trend . . . that can be expected to increase for some years.<sup>2</sup>

Expanding use of government as a purchasing agent, funneling through it ever-larger percentages of the national income, has been called the movement toward a contract state, in reference to

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<sup>2</sup> Max Ways, "The Road to 1977," *Fortune*, January, 1967, p. 196.