Gary North

WHO'S THE BOSS?

A few years ago, United Airlines ran television ads that featured the phrase, "you're the boss." Passengers in the ads were constantly being told, "you're the boss" by all the smiling actors who were portraying the United Airlines employees.

One fellow I know always made it a point to enquire on every United flight, "Who's the boss?" Invariably, there would be some confusion, and then he would announce, grinning, "*I'm* the boss!" He even went so far as to shout "Who's the boss?" into the pilot's compartment, and when the captain dutifully answered, "I am," my friend laughed, "No, *I'm* the boss." No doubt this endeared both him and the advertising agency to all the United employees who were treated to this little lesson in free market economics.

Actually, my friend is an entrepreneur himself, the owner and operator, along with his family, of America's most financially prosperous profit-making Christian day school. He is also a minister of the gospel. So when he says, "I'm the boss," he mentally qualifies the phrase with "God's the boss, and I'm only his steward." But at the same time, he knows that he, as consuming steward, is indeed the responsible boss; without his pur-

---

Dr. North is editor of *Biblical Economics Today*, available free on request: P. O. Box 8567, Durham, N.C. 27707.

chase, the seller of goods and services forfeits the profits that might have been made on the sale. The seller who ignores this fact loses.

Who Owns What?

My friend and his family own the school and its grounds. In other words, they have legal title to it. Since it is profit-making, he has to pay local property taxes on the building and grounds. The civil government holds him liable. The government says that he's the owner, and therefore he is personally responsible for the taxes. It is only slightly ironic that the bulk of his property taxes goes to support the government school system, his zero-tuition competitor. It is also ironic that voters think that he pays the taxes; consumers of the product pay the taxes.

Since he has not incorporated his business, he is a "sole proprietor." The state and national governments therefore classify him as self-employed when they send out the income tax forms. He is the owner of the business, and therefore the tax collectors regard him as self-employed.

Yet if "he's the boss" when he buys an airline ticket, how can he also be the boss when he sells seats in his school? How can both consumer and producer be the boss? If he is self-employed, then who pays him the money for tuitions? Isn't the boss the one who pays? Aren't the parents of the students the bosses, economically speaking?

The market distinguishes between *owner* and *employer*, even if the tax collector has failed to understand the difference. The owner holds legal title to the property. The employer hires the use of all or part of the property from the owner. The employer, in effect, *rents* the good (including the labor time) owned by the legal owner. The truly "self-employed" person is either a hermit or bankrupt.

The buyer of a resource, or in another example, the person who rents the other person's property for a specified period of time—a seat on a plane, a seat in a classroom, or whatever—offers in exchange some valuable resource. Perhaps the exchange is a bartering of services, or even mutually borrowed tools. Or it may be a transfer of ownership, such as dollars for education. The point is this: two parties claim *ownership* of certain resources, over which they are *legally sovereign,* yet each must regard the other as the boss if he wishes to effect a mutually profitable exchange. If one man wants the use of another's asset, either on a temporary or permanent basis, the private property economy forces him to become humble concerning the asset he presently owns which he wishes to exchange for the other person's asset.

Mutual exchange therefore demands, if not emotional humility, then at least visible, demonstrated humility. The fact that a person desires the use of another person's asset in no way destroys his own *legal* sovereignty over his presently owned assets. He, as a consumer, is sovereign over what he owns. But as a *potential seller,* his legal sovereignty enhances the other man's sovereignty as a potential consumer. The other man has legal control over his asset, too, so that he cannot be compelled to hand it over. Each man has *legal* sovereignty over his own asset; each man has *consumer* sovereignty over his own asset; and each man must honor *the other's* sovereignty, both as owner and consumer, if a mutually beneficial exchange is to take place.

Consumer Sovereignty

The concept of consumer sovereignty is basic to any market exchange economy. However, the phraseology has alienated some economists. One group, the *interventionists,* hates to use the phrase because they believe that the supposed monopoly power of the *sellers of goods and services* somehow shields them from the non-monopoly position of the *sellers of money.* They limit the use of the term "sovereignty" to the sellers of goods and services; sellers of money are somehow not sovereign. If they were to rewrite the great Pearl Bailey hit of the 1950s, they would write: "It takes one to tango," unless the State redistributes economic power, of course.

On the other hand, there are some *anarcho-capitalists* who reject the language of consumer sovereignty, because they think it creates confusion in the minds of the public. They think that others will think that "consumer sovereignty" refers to an implied *legal* sovereignty of all potential *sellers of money.* In other words, some people may want to pass legislation compelling sellers of goods and services to sell to any and all people who offer money in exchange. Equal opportunity housing laws would be examples of this kind, or laws compelling hotels to rent rooms to members of minority groups. There is no such thing as legitimate legal sovereignty over the other man's property, the anarcho-capitalists argue; you have to *buy* such legal sovereignty on a coercion-free market.

From a tactical point of view, the anarcho-capitalists have a good point. There is too much confusion concerning legal sovereignty and its function on a free market. Legal sovereignty provides the owner of an asset the power to use or dispose of it as he sees fit. He therefore possesses consumer sovereignty over it. This gives him the *legal right to bid* in the open market for other men's assets, using all or a portion of his assets as his competitive bid. A person who owns (controls) one asset, and who believes that he could put another asset to even better use, has the legal right to enter the market's auction and place his bid for that other asset. Thus, in the words of W. H. Hutt, who first enunciated the concept of consumer sovereignty in the mid 1930s:

> Applying this standard, we must regard property-owners as the custodians of the community's scarce resources. The powers they possess in dealing with these resources must be regarded as delegated by them in its consumer aspect. So conceived, the system which is variously known as "private enterprise" or the "private property system" is simply one in which the task of deciding upon action in response to consumers' will is diffused by a more or less automatic devolution throughout the community.

The key here is the idea of "deciding upon action in response to consumers' will." The *asset owner* decides what his response should be to the various offers by market participants to purchase his scarce economic resource. Should he sell? Should he rent it? Should he hold it for appreciation? Should he consume it himself now or in the future? It is *his* asset. *He* decides. But he decides within a framework of legal ownership and competitive bidding.

Other consumers have the legal right to offer *their* assets—over which they are sovereign as *legal owners* and *potential consumers*—in exchange for my assets, which I legally own and have the right to consume or sell or rent. Each owner therefore has two fundamental legal rights. First, he has the *right to use* his own assets. Second, he has the *right to enter* the competitive auction of the free market in order to offer his assets in exchange for other men's assets. The idea of consumer sovereignty, properly understood, does not imply any legal right to another man's assets. But it does imply the right to impose the *costs* of legal ownership on another property owner.

The Costs of Ownership

What are the costs of ownership? First, there is the cost of *maintaining the civil government,* which in turn is supposed to enforce lawful contracts, protecting men from theft, coercion, and fraud. This, of course, is denied by the anarcho-capitalists. Second, and equally important (though not fully understood by most observers), is the cost associated with *holding an asset off the market.* If I am offered money or assets for my property, I have to forfeit the use of those assets and that money when I decide to cling to my presently owned asset. No one should be allowed to force me to sell, but no one can or should protect me from the full *opportunity costs* of holding my property. If I forfeit the use of some asset by maintaining possession of another asset, I *thereby pay the market costs of* ownership.

When I speak of "holding an asset off the market," I really mean *refusing to sell it* at present prices. No asset can be held off the market, except by concealing its existence, if by "market" we mean the right of others to bid for it. Even an asset that I cannot legally sell—my wife, for example, or some prescription drug that has been assigned by a physician for my own use—may have a market price, though a black market (illegal market) price. While it is not necessarily true that "every man has his price," it *is* true that *every man bears the costs of saying no* to whatever price another person may offer him. Even in the case of an asset which is concealed by an owner from other market participants, the owner pays a price, namely, the forfeited opportunities associated with the highest price that *would have been offered* had others known of its existence. The presence of a free market means that men must bear the costs of ownership.

Consumer sovereignty therefore involves the universal imposition of the full economic costs of ownership, twenty-four hours a day. No owner can escape. If he refuses to sell, he forfeits the use of whatever assets were offered to him in the giant auction by other owners. This is why ownership in a free market is truly a stewardship function. Men must make decisions in response to the offers of others. The old evangelical slogan, "no decision is nevertheless a decision," is valid when applied to market transactions, including the refusal to make a transaction. There is no escape from the responsibilities of ownership.

"I'm the Boss, Sir"

United Airlines (and the banks that have advanced the money) is the boss. The directors can decide, in the name of the owners of United Airlines stocks, whether or not to fly the airplanes. But the directors cannot make this decision at zero cost. Always before them are the competitive bids of potential paying passengers, not to mention the competitive offers of United's rivals: the other airlines, bus lines, auto rental services, used car lots, and even a few unprofitable passenger train lines (that the government forces the trains' managements to keep in service). United Airlines is the boss, for as long as the firm is making profits and not being forced into bankruptcy by management's failure to predict future consumer demand and meet it at a price consumers are willing to pay.

The same is true of all consumers. We are the bosses over our money. But if we need to get from here to there—if we find it in our self-interest to do so—then we want others to compete for our money. We want to get there inexpensively.

Present legal owners therefore have assets that enable them to become *future consumers* of other people's presently held assets, *if* they offer the right price. The free market allows each potential future consumer to impose costs—stewardship costs—on any other present owner. This process reminds all owners of their responsibilities. No one can escape either the responsibilities or the costs of ownership. By keeping owners reminded of their economic responsibilities as owners, the free market auction process imposes the costs of being arrogant. Legally, owners can be arrogant in their ability to control an asset, but economically they cannot do so at zero cost. A consumer can legally maintain his sovereign ownership, but never as an autonomous being, for to be autonomous, a person must be free from the economic (scarcity) constraints of market prices and competitive bids from others. *Consumer sovereignty therefore is a denial of economic autonomy.* The market is indeed a social institution.

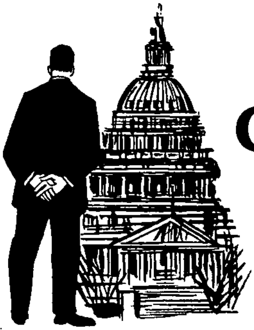
Social Harmony

IDEAS ON LIBERTY

IF the less productive members of a society truly seek security, let them rally to the defense of the freedom of choice and freedom of action of those who work for a living and who are personally productive. Let them voluntarily deal with one another in a market place kept free of compulsion. Such voluntary trading directs the instruments of production and the means of economic security into the hands of those most capable of serving all mankind. It promotes mutual respect for life and property. It stimulates every individual to develop his own talents to their maximum productivity. It encourages saving instead of squandering. The free market, and not its displacement by governmental controls, is the only route to the kind of personal security which makes for harmonious social relationships.

PAUL L. POIROT

Edward Coleson



Christian Principles and Public Policy

WHAT has been called "the greatest scandal in the scientific domain" in the modern era was the work of the Russian biologist Trofim D. Lysenko.[1] This charlatan rejected the genetics of Gregor Mendel, much to the disgust of competent Russian scholars. However, with Stalin's support, he dominated the Soviet scene for decades. Many reputable Russian scientists lost their jobs, some their very lives, for even mildly resisting the fashion. On the national level this absurd theory is said to have done considerable damage to Russia's ailing agriculture.

When Khrushchev was deposed in 1964, the Lysenko era was over at last. Millions of textbooks were scrapped and a hundred thousand biology teachers were retrained. As Eugene Lyons says, "Intelligent Soviet people are frankly ashamed and embarrassed." But is there any more cause for embarrassment over this needless blunder than for what many so-called social scientists of both East and West have been doing and writing for a long, long time?

Perhaps Bertram D. Wolfe summed up the Lysenko delusion best in this brief statement: "Laws of heredity were passed by the Politburo." While we would reject with scorn any attempts to legislate the basic principles of genetics, we have left the door wide open to the same type of thinking by social engineers in charge of a multitude of experiments in every aspect of our national life. If we can't abolish the laws of Nature in the physical sciences and biology, can we do so in the social, political and economic realm? Yet we try to every day.

Perhaps one of the best examples of an attempt to beat what has long been considered a basic principle of politics and economics was the

---

Dr. Coleson is Professor of Social Science at Spring Arbor College in Michigan.