

THINKING ABOUT ECONOMICS



Edmund A. Opitz

MAN is not simply a spiritual being; he is a spiritual being who feels hunger, needs protection from the cold, and seeks shelter from the elements. In order to feed, house and clothe himself, a person must work. Augmenting his labor with tools and machinery, he converts the raw materials of his natural environment into consumable goods. He learns to cooperate with nature and use her forces to serve his ends. He also learns to cooperate with his fellows, his natural sociability reinforced by the discovery that the division of labor benefits all. "Trade is the great civilizer." There's an unbroken thread that runs from these primitive beginnings to the complex

economic order of our own time: it is the human need to cope with scarcity, to satisfy creaturely needs, to provide for material well-being.

The visible signs of this endeavor are all about us; factories, stores, offices, farms, mines, power plants. These are the locations where work is performed, services rendered, goods exchanged, wages paid, money spent, and so on. This is the economy, and in the free society the economy is *not* under government control and regulation.

In the free society the law protects life, liberty and property of all men alike, ensuring peaceful conditions within the community. This lays down a framework and a set of rules, enabling people to compete and cooperate as they go about the job of providing for their material well-being. When government performs

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as an impartial umpire who interprets and enforces the agreed upon rules, then the uncoerced economic activities of people display regularity and harmony—as if guided by Adam Smith's invisible hand!

The Capitalistic Economy

In a society where people are free, the economy is referred to as capitalistic. Some prefer the term free enterprise; others like the private enterprise system, or the private property system, or the market economy. Now, of course, no society has ever been one hundred per cent free, which means that we've never had a completely free market economy. Some people have always seized and misused political power to rig the market in their favor. Obviously, it is not the market's fault if some people choose to break the rules.

The appalling thing is that many intellectuals mistake these deviations from free enterprise for free enterprise itself! And so they condemn "capitalism." But the "capitalism" they condemn is actually the failure of certain people to live up to the rules of capitalism—the system of voluntary exchange among uncoerced people. We're aware of human frailties and shortcomings; we know that it's easier to preach than to practice, easier to announce a set of ideals than to live up to them. Economic theory provides us with a description of the way an

economy would work among a people who exercise individual liberty and practice voluntary association. It is this theory we seek to understand and explain, and it is the deviations from this ideal that we seek to correct.

Every person of good will wants to see other people better off; better fed, better housed, better clothed, and well provided with the amenities. So everyone wants the economic order to function efficiently. But how important is it that the economic order be free from bureaucratic direction and political controls? Does it do any harm if we allow the economic order to be quarterbacked by government? Let's examine a concrete example to indicate the serious secondary consequences of government control.

In the economic sector of our society there is a multi-billion dollar industry engaged in the production of newspapers, magazines, and journals of opinion. There is also the book trade. Those who publish and distribute the printed word constitute The Press, and one of the important freedoms cherished in our intellectual heritage is Freedom of the Press. The concept is now extended to cover the media—radio and television—where the same principle applies.

Freedom of the Press means simply that the government does not tell editors what to print and what

not to print—nor does it dictate to purveyors of television commentary. Some editors print stuff they think will sell. Some editors are men of strong conviction trying to promote a cause they believe in; others are party hacks thumping the tub for some ideological idiocy like communism, or anarchism, or the New Left, or whatever. But not a single editor in the country is out crusading for government censorship of the press; except indirectly!

Editorial Inconsistency

A large number of editors, writers and commentators who demand freedom for themselves in one breath, demand government regulation of business and industry with the next! If, at the urging of The Press, government continues to extend its controls over one business after another, how can anyone believe that government will respect the editorial room as a privileged sanctuary, and keep its hands off that section of business known as The Press? Socialize the economy and The Press becomes a branch of the government bureaucracy, free no longer.

The fact that The Press actively cooperates in its own entrapment makes the end result even more bitter. It is one thing to go down fighting; it is something else to cooperate in your own demise. Political control and regulation of the written and

spoken word means excessive influence over the minds and thoughts of people. It means eventually a ministry of Propaganda and Information, and an Office of Censorship.

If you get the impression that I don't think highly of some of the people involved with The Press, you'd be correct; they are—with notable exceptions—a sorry lot. They, along with their counterparts in the University and in the Church—with notable exceptions—are guilty of that "treason of the intellectuals" denounced by the French writer, Julien Benda, in his 1927 book of that title. The intellectuals' treason in the modern world, wrote Benda, is to abandon the pursuit of truth and to seek political preferment instead.

Lest you think I am being unduly harsh on some of those who refer to themselves as Intellectuals, I shall quote a few words of C. S. Lewis:

It is an outrage that they should be commonly spoken of as Intellectuals. This gives them the chance to say that he who attacks them attacks Intelligence. It is not so. They are not distinguished from other men by an unusual skill in finding truth nor any virginal ardour to pursue her. . . . It is not excess of thought but defect of fertile and generous emotion that marks them out. Their heads are no bigger than the ordinary; it is the atrophy of the chest beneath that makes them seem so.¹

¹*The Abolition of Man*, pp. 34-35.

A Vital Connection

I use The Press to point up the vital relationship between intellectual freedom and economic freedom. Freedom of thought, bound only by the rules of thought itself; freedom of belief, in terms of the mind's own energy; freedom of utterance, guided by logic and within reason—these spiritual freedoms are of the very essence of our being. When they are threatened directly all of us rush to their defense. My point is that they are threatened *indirectly* whenever—and to whatever degree—their material and economic support is straitjacketed by government regulations and controls.

The same analysis would apply to the Academy and to the Church. If the government owns the campus and pays the professor's salary, the teacher becomes a political flunky, no longer free to research, write, and teach according to his best insights and conscience. And when private property is no longer regarded as the *sine qua non* of a free people, when private property suffers increasing encroachments by government, then church properties, too, become politicized. And, as taxes increase and disposable individual income diminishes, private voluntary funding of churches correspondingly declines and religious programs suffer. Accept economic controls, and what then becomes of Academic Freedom and Freedom of Worship?

In short, freedom is all of a piece; philosophy is not the same as digging a ditch, but socialize the ditch-digger and the philosopher begins to lose some of his freedom. Freedom of the marketplace and liberties of the mind hang together as one depends on the other.

The great philosopher, George Santayana, reflected sadly that, in this life of ours, the things that matter most are at the mercy of the things which matter least. A bullet, a tiny fragment of common lead, can snuff out the life of a great man; a few grains of thyroxin one way or the other can upset the endocrine balance and alter the personality, and so on. But the more we think about this situation and the more instances of this sort we cite, the more obvious it becomes that the things Santayana declared matter least, actually matter a great deal. They are so tied in with the things which matter most that the things which matter most depend on them!

Economic Liberty Paramount

In precisely the same way, economic liberty matters a great deal because every liberty of the mind is joined to freedom of the market, economic freedom. There's an old proverb to the effect that whoever controls a man's subsistence has acquired a leverage over the man himself, which impairs his freedom of thought, speech, and

worship. The man who cannot claim ownership over the things he produces has no control over the things on which his life depends; he is a slave, by definition. A man who is not allowed to own becomes the property of whoever controls his means of survival, for "a power over a man's support is a power over his will," wrote Hamilton in *The Federalist*. Economic planning implies the power to regulate the noneconomic sectors of life.

F. A. Hayek puts it this way in his influential book, *The Road to Serfdom*: "Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means for all our ends."²

In a totalitarian country like Russia or China the government acts as a planning board to assign people to jobs and direct the production and distribution of goods. The whole country is, in effect, a gigantic factory. In practice, there is bound to be a lot of leakage—as witness the inevitable black market. But to whatever extent the State does control the economic life of the Russian and Chinese people it directs every other aspect of their lives as well.

The Masses Content to Drift

The masses of people everywhere and at all times are content to drift

along with the trend; they pose no problem for the planner. But what happens to the rebels in a planned economy? Suppose you wanted to publish an opposition newspaper in a place like Russia or China. You could not go out and simply buy presses, paper, and a building; you'd have to acquire these from the State. For what purpose? Why, to attack the State! You would have to find workmen willing to risk their necks to work for you; ditto, people to distribute; ditto people willing to be caught buying or reading your paper. A *Daily Worker* may be published in a capitalist country, but a *Daily Capitalist* in a communist country is inconceivable!

Or take the orator who wants to protest. Where could he find a platform in a country in which the State owns every stump, street corner, and soap box—not to mention every building?

Suppose you didn't like your job, where could you go and what could you do? Your job is pretty bad, but it is one notch better than Siberia or starvation, and these are the alternatives. Strike? This is treason against the State, and you'll be shot. Listen to George Bernard Shaw, defending Socialism, writing in *Labor Monthly*, October 1921: "Compulsory labor, with death as the final penalty, is the keystone of Socialism." Shaw was a vegetarian because he loved animals; perhaps

²*The Road to Serfdom*, p. 32.

he was a Socialist because he hated people!

Point One: *Economic freedom is important in itself, and it is doubly important because every other freedom is related to it.*

To have economic freedom does not, of course, mean that you will be assured the income you think you deserve, nor the job to which you think you may be entitled. Economic freedom does not dispense with the necessity for work. Its only promise is that you may have your pick from among many employment opportunities, or go into business for yourself, and as a bonus the free economy puts a multiplier onto your efforts to enrich you far beyond what the same effort returns you under any alternative system.

Under primitive conditions a family grows its own potatoes, builds its own shelter, shoots its own game, and so on. But we live in a division of labor society where individuals specialize in production and then exchange their surpluses for the surpluses of other people until each person gets what he wants. Most of us work for wages; we produce our specialty, and in return we acquire a pocketful of dollar bills. The dollars are neutral, and thus we can use them to achieve a variety of purposes. We use some of them to satisfy our needs for food, clothing and shelter; we give some to charity; we take a trip; we pay taxes; we go

to the theater, and so on. The money we earn is a means we use to satisfy our various ends.

These interlocking events—production, exchange, and consumption—are market phenomena, and the science of economics emerged, as Mises put it, with “the discovery of regularity and sequence in the concatenation of market events.”

Economics Concerns the Means to Achieve Human Goals

Economics has often been called a science of means. The economist, speaking as an economist, does not try to instruct people as to the nature and destiny of man, nor does he try to guide them toward the proper human goals. The ends or goals people strive for are, for the economist, part of his given data, and his business is merely to set forth the means by which people may attain their preferences most efficiently and economically. Economics, as Mises says, “is a science of the means to be applied for the attainment of ends chosen.” And a “science never tells a man how he should act; it merely shows how a man must act if he wants to attain definite ends.”³

When people are free to spend their money as they please, they will often spend it foolishly—I mean other people, of course! As consumers they will demand—and produc-

³*Human Action*, p. 10.

ers will obediently supply—goods that glitter but are shoddy; styles that are tasteless; entertainment that bores; and music that drives us nuts. Nobody ever went broke, H. L. Mencken used to say, by underestimating the taste of the American public. But this, of course, is only half the story. The quality product is available in every line for those who seek it out, and many do. The choices men make in the economic sector will be based upon their scales of values; the market is simply a faithful mirror of ourselves and our choices.

Now, man does not live by bread alone, and no matter how much we might increase the quantity of available material goods, nearly everyone will acknowledge that there is more to life than this. Individual human life has a meaning and purpose which transcends the social order; man is a creature of destiny.

As soon as we begin talking in these terms, of human nature and destiny, we move into the field of religion—the realm of ends. A science of means, like economics, needs to be hitched up with a science of ends, for a means all by itself is meaningless; a means cannot be defined except in terms of the ends or goals to which it is related. The more abundant life is not to be had in terms of more automobiles, more bathtubs, more telephones, and the like. The truly human life operates

in a dimension other than the realm of things and means; this other dimension is the domain of religion—using the term in its generic sense. Or, call it your philosophy of life, if you prefer.

If we as a people are squared away in this sector of life—if our value system is in good shape so that we can properly order our priorities—then we'll be able to take economic and political problems in our stride. On the other hand, if there is widespread confusion about what it means to be a human being, so that people are confused as to the proper end and goal of human life—some seeking power, others wealth, fame, publicity, pleasure or chemically induced euphoria—then our economic and political problems overwhelm us.

If economics is a science of means, that is, a tool, we need some discipline to help us decide how to use that tool. The ancient promise of "seek ye first the Kingdom" means that if we put first things first, then second and third things will drop naturally into their proper places. Our actions will then conform to the laws of our being and we'll get the other things we want as a sort of bonus.

Point Two: *Once we understand that economics is a science of means, we realize that economics cannot stand alone—it needs to be hooked up with a discipline which is concerned*

with ends, which means religion or philosophy.

There is no easy answer to questions about the ends for which life should be lived, or the goals proper for creatures of our species, but neither is the human race altogether lacking in accumulated wisdom in the matter. Let me offer you a suggestion from Albert Jay Nock. Nock used to speak of "man's five fundamental social instincts," and he listed them as an instinct of expansion and accumulation, of intellect and knowledge, of religion and morals, of beauty and poetry, of social life and manners. He then makes the charge that our civilization, especially during the past two centuries, has given free reign only to the instinct of expansion and accumulation, that is, the urge to make money and exert influence; while the other four instincts have been disallowed and perverted. Our culture is lopsided as a result, and some basic drives of human nature are being thwarted.

Let's move to the next stage of our inquiry and ask: What is the distinguishing feature of a science, and in what sense is economics a science? Adam Smith entitled his great work *The Wealth of Nations* (1776); one of Mises' books is entitled *The Free and Prosperous Commonwealth* (1927). It is clearly evident that these works deal with national prosperity, with the overall well-

being of a society, with upgrading the general welfare. These are works of economic science, insofar as they lay down the general rules which a society must follow if it would be prosperous.

General Principles

The distinguishing feature of a science, any science, is that it deals with the general laws governing the behavior of particular things. Science is not concerned with particular things, except insofar as some particular thing exemplifies a general principle. When we concentrate on a particular flower, like Tennyson's "flower in the crannied wall," we move into the realm of art and poetry. Should we want the laws of growth for this species of flower, we consult the science of botany. These books by Smith and Mises lay down the rules a society must conform to if it wants to prosper, they do not tell you as an individual how to make a million in real estate, or a killing in the stock market. This is another subject.

The question before the house in economic inquiry is: "How shall we organize the productive activities of man so that society shall attain maximum prosperity?" And the answer given by economic science is: "Remove every impediment that hampers the market and all the obstructions which prevent it from functioning freely. Turn the market

loose and the *nation's* wealth will be maximized." The economist, in short, establishes the rules which must be followed if we want a *society* to be prosperous; but no conceivable elaboration of these rules tells John Doe that he ought to follow them.

Economic science can prescribe for the general prosperity, but it cannot tell John Doe that he ought to obey that prescription. That job can be performed, if at all, by the moralist. The problem here is to bridge the gap between the economist's prescription for national prosperity and John Doe's adoption of that prescription as a guide for his personal conduct.

A Science of Means

Economics is a science of means. It abstains from judgments of value and does not tell John Doe what goals he should choose. If you want to persuade John Doe to follow the rules of economics for maximizing the general prosperity you must argue that he has a moral obligation to conform his actions to certain norms already established in his society by the traditional ethical code.

This code extols justice, forbids murder, theft, and covetousness, and culminates in love for God and neighbor. This is old stuff, you say; true, but it's good stuff! It's the very stuff we need when constructing a proper framework for economic activity.

The market economy is not something which comes out of nothing. But the market economy emerges naturally whenever certain non-economic conditions are right. There is a realm of life outside the realm of economic calculation, on which the market economy depends. Let me cite Ludwig Mises again, quoting this time from his great work, *Socialism*. Mises speaks of beauty, health, and honor, calling them moral goods. Then he writes: "For all such moral goods are goods of the first order. We can value them directly; and therefore have no difficulty in taking them into account, even though they lie outside the sphere of monetary computation."⁴ In other words, the market economy is generated and sustained within a larger framework consisting of, among other things, the proper ethical ingredients.

Point Three: *The free market will not function in a society where the sense of moral obligation is weak or absent.*

Nearly everything on this planet is scarce. There are built-in shortages of almost everything people want. For this reason we need a science of scarcity, and this is economics—a science of scarcity. Goods which are needed but not scarce, such as air, are not economic goods. Air is a free good. Economics

⁴*Socialism*, p. 116.

deals with things which are in short supply, relative to human demand for them, and this includes most everything we need and use. Our basic situation on this planet is an unbalanced equation with man and his expanding wants on one side, and the world of scanty resources on the other.

Human Wants Insatiable

The human being is a creature of insatiable wants, needs, and desires; but he is placed in an environment where there are but limited means for satisfying those wants, needs, and desires. Unlimited wants on one side of this unbalanced equation; limited means for satisfying them on the other. Now, of course, it is true that no man, nor the human race itself, has an unlimited capacity for food, clothing, shelter, or any other item singly or in combination. But human nature is such that if one want is satisfied the ground is prepared for two others to come forward with their demands. A condition of wantlessness is virtually inconceivable, short of death itself.

What does all this mean? The upshot of all this is that the economic equation will never come out right. It's insoluble. There's no way of taking a creature with unlimited wants and satisfying him by any organization or reorganization of limited resources. Something's got to give, and economic calculation is the human

effort to achieve the maximum fulfillment of our needs while avoiding waste.

Let me, at this point, offer you a little parable. This story has to do with a bright boy of five whose mother took him to a toy store and asked the proprietor for a challenging toy for the young man. The owner of the shop brought out an elaborate gadget, loaded with levers, buttons, coils of wire, and many movable parts. The mother examined the complicated piece of apparatus and shook her head. "Jack is a bright boy," she said, "but I fear that he is not old enough for a toy like this."

"Madam," said the proprietor, "this toy has been designed by a panel of psychologists to help the growing child of today adjust to the frustrations of the contemporary world. No matter how he puts it together, it won't come out right."

Relative Scarcity

Economics is indeed the science of scarcity, but it's important to realize that the scarcity we are talking about in this context is relative. In the economic sense, there is scarcity at every level of prosperity. Whenever we drive in city traffic, or look vainly for a place to park, we are hardly in a mood to accept the economic truism that automobiles are scarce. But of course they are, relative to our wishes. Who would

not want to replace his present car with a Rolls Royce if it were available merely for the asking?

These simple facts make hash of the oft repeated remark that "we have solved the problem of production, and now we must organize politically to redistribute our abundance." Economic production involves engineering and technology, in that men, money, and machines are linked to turn out airplanes, or automobiles, or tractors, or typewriters, or what not. But resources are limited, and the men, money, and machines we employ to turn out airplanes are not available for the production of automobiles, or tractors, or anything else. The dollar you spend for a package of cigars is no longer available to you for a hamburger.

The economic equation can never be solved; to the end of time there will be scarce goods and unfulfilled wants. There will never be a moment when everyone will have all he wants. "Economics," in the words of Wilhelm Roepke, "should be an anti-ideological, anti-utopian, disillusioning science,"⁵ and indeed it is. The candid economist is a man who comes before his fellows with the bad news that the human race will never have enough. Organize and reorganize society from now till doomsday and we'll still be trying to

cope with scarcity. This truth does not set well with those who have the perfect solution in hand—and the woods are full of such. No wonder economists are unpopular!

Point Four: *Things are scarce, and therefore we need a science of scarcity in order to make the best of an awkward situation.*

The modern mind takes the dogma of inevitable progress for granted. Most of our contemporaries assume that day by day, in every way, we are getting better and better, until some day the human race will achieve perfection. The modern mind is passionately utopian, confident that some piece of social machinery, some ideological gadgetry, is about to solve the human equation. Minds fixed in such a cast of thought, minds with this outlook on life, are immune to the truths of economics. The conclusions of economics, in their full significance, are incompatible with the facile notions of automatic human progress which are part of the mental baggage of modern man—including many economists!

I'm not denying that there is genuine progress in certain limited areas of our experience. This year's color television set certainly gives a better picture than the first set you bought in, say, 1950. The jet planes of today deliver you more rapidly and in better shape than did the old prop jobs—although there's some

⁵A *Humane Economy*, p. 150.

truth in the remark of some comedian: "Breakfast in Paris, luncheon in New York, dinner in San Francisco—baggage in Rio de Janeiro!" Automobiles are more luxurious, we have more conveniences around the house, we are better equipped against illness. There is real progress in certain branches of science, technology, and mechanics.

But are the television programs improving year by year? Are the novels of this year so much better than the novels of last year, or last century? Are the playwrights whose offerings we have seen on Broadway this season *that* much better than Shakespeare? Has the contemporary outpouring of poetry rendered Homer, Dante, Keats and Browning obsolete? Is the latest book on the "new morality" superior to Aristotle's *Ethics*?

Are the prevailing economic doctrines of 1979, reflecting the Samuelson text, sounder than those of a generation ago, nourished on Fairchild, Furness and Buck? Are today's prevailing political doctrines more enlightened than those which elected a Grover Cleveland? Henry Adams in his *Education* observed that the succession of presidents from Washington, Adams and Jefferson down to Ulysses Grant was enough to disprove the theory of progressive evolution! What would he say if he were able to observe the recent past?

The dogma of inevitable progress does not hold water. Perfect anthills may be within the realm of possibility; but a perfect human society, never! Utopia is a delusion. Man is the kind of a creature for whom complete fulfillment is not possible within history; unlike other organisms, he has a destiny in eternity which takes him beyond biological and social life. This is the world outlook of all serious religion and philosophy. The conclusion of economics—that life holds no perfect solutions—is just what a person who embraces this world view would expect. Economic truths are as acceptable to the religious world view as they are unacceptable to the world view premised on automatic progress into an earthly paradise.

Another Dimension Transcends the Natural Order

If there is another dimension of being which transcends the natural order—the natural order being comprised of the things we can see and touch, weigh and measure—and if man is really a creature of both orders and at home in both, then he has an excellent chance of establishing his earthly priorities in the right sequence. He will not put impossible demands on the economic order, nor will he strive for perfection in the political order. Earth is enough, so he'll leave heaven where it belongs, beyond the grave! The effort to build

a newfangled heaven on earth in countries like Russia and China has resulted in conditions that resemble an old-fashioned hell. Let us strive for a more moderate goal, let us work for a tolerable society—not a perfect one—and we may make it!

Point Five: *Economics tells us that the Kingdom of God is beyond history.*

Economics is a discipline in its own right, but it has some larger meanings and implications. Its very

nature demands a framework in which there are religious and ethical ingredients. Establish these necessary conditions—together with their legal and political corollaries—and within this framework the economic activities of men are self-starting, self-operating, and self-regulating. Given the proper framework, the economy does not have to be *made* to work; it works by itself, and it pays rich dividends in the form of a free and prosperous commonwealth. ☉

Shari Gifford

The Effects of Regulation on an Industry



WHAT A SITUATION! A person, who has decided to go into business for himself, discovers that he must first obtain a license from the government. To get the license he must prove to the authorities that he is a citizen of moral character with financial, technical and other qualifications. He must describe in detail all equipment, buildings, location and any other apparatus necessary

for operation. He must describe his proposed production techniques, including times of operation. He must survey the community leaders to determine the needs of the community and describe how he proposes to meet these needs. He must also show that he is financially capable of setting up and operating his business for one year without any revenue from the sale of his product.

To facilitate the acquisition of the license he must hire a lawyer in

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