

Consumer Sovereignty

by Bettina Bien Greaves

From time to time, insightful economists have *described* the operations of a market economy. Many have noted that no central planner is needed to tell producers what to produce, when to produce, how much to produce, and what quality to produce. Adam Smith, often called the “first economist,” pointed out in 1776 that the butcher, the baker, and the brewer are guided as if by “an invisible hand.” Frederic Bastiat remarked in 1845 that Parisians need not fear starving the next day, but could sleep peacefully in their beds, confident that the city would be provisioned during the night.

However, it was only with the development of the subjective, marginal utility theory of value by the Austrian school that economists *explained* why the market needed no central planner, why no one needed to direct the butcher, the baker, the brewer, or to plan the provisioning of Paris. It was Ludwig von Mises (1881-1973), leading spokesman for decades of the Austrian school, who clearly demonstrated the consumer’s crucial role in production.

Every one of us has personal, subjective values, the Austrian economists point out. Each of us acts in response to our respective values. When as consumers we buy, or refuse to buy, we send a message to the entrepreneurs who guide production. Entrepreneurs “are at the helm and steer the ship,” Professor Mises noted. “But they are not free to shape its course. They are not supreme,

they are steersmen only, bound to obey unconditionally the captain’s orders. The captain is the consumer.” Let’s see how Captain Consumer directs production.

Recent accounts of economic conditions in the U.S.S.R. tell of serious shortages—of soap, for instance. Why? It is said there are bottlenecks in the production of paraffin needed for producing sulphanol, an ingredient used in making soap; hence the production of soap is held up. It is charged that the responsibility for soap-making is dispersed among several governmental departments, each with other more urgent responsibilities; hence soap production is neglected. But the real reason for the shortage of soap is the lack of opportunity for entrepreneurs to respond to the wants and wishes of consumers.

A widespread shortage of soap would never exist in a country with freedom of opportunity and respect for private property. At the first sign of demand for soap over and above available supplies, some entrepreneur, hoping for profit, would try to fill the gap, by starting a small soap-making operation of his own, or by shipping soap from where it was more abundant. The demands of consumers would guide him.

Given the lack of soap in Russian stores, why doesn’t someone there start to make soap at home? Soap isn’t very difficult to make and the ingredients aren’t expensive. Many of our grandmothers and great-grandmothers used to make soap. Old cookbooks give recipes. It can be made from readily available raw materials: wood ashes, fat, lye, and salt.

Let’s assume for a moment that an enterprising Russian housewife and her children weren’t

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Ludwig von Mises

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deterred by the threat of government regulation and decided to make soap on their own. Wood ashes they would have aplenty. Also fats left over from cooking. By pouring water over the ashes and letting it stand, they could leach out a form of lye. This they would then mix with the fats, add salt, and heat until a crude kind of soap began to form. Not a very fancy soap, to be sure, but a usable soap, which in view of the shortage in Russia, consumers would undoubtedly welcome.

Each Russian consumer who chose to spend money for this new soap, instead of something else such as cigarettes, would vote his personal values, transferring rubles to these enterprising soap-makers while, at the same time, sending fewer rubles to the producers of cigarettes. As consumers purchased soap in preference to cigarettes, they would be giving the venturesome soap-makers more and more rubles, providing them with a profit, and encouraging them to continue production.

Freedom to Choose

Consumer sovereignty is consumers making choices one by one, consumers buying one thing

and not another, consumers transferring their money to some producers and not to others. The process isn't invisible; it isn't miraculous; it only seems miraculous in that it directs production without a central authority having to plan or give orders.

If consumers still clamored for more soap after the first batch was gone, the enterprising soap-makers would expand production, in response to consumer sovereignty. As more and more consumers bought their soap, the soap-makers would profit. And their success would induce others to start producing soap, perhaps an improved variety, this too in response to consumer sovereignty. As sales grew, the soap-makers would have to look farther afield for supplies of wood ashes and left-over cooking fats. Consumer sovereignty would soon impact on suppliers of these raw materials too, affecting the prices they asked and could receive for raw materials, persuading them to sell to the soap-makers, and perhaps even to expand their production. In short order, as consumers assumed control, the production of soap in Russia would rise and the shortage would disappear.

Consumer sovereignty is manifested by consumer purchases and refusals to purchase. As long as customers continued to buy soap, they would keep on transferring money from other segments of the market to pay for their purchases. In the process, they would help to make those soap-producers who responded to their wishes richer. In the final analysis, it is the consumers, as Mises has written, who "make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities."

Russian consumers lack soap and many other goods because potential entrepreneurs have little freedom to go into business, to invest, to experiment, and to try to respond to the wishes of consumers. In Russia, there is a shortage of soap because consumers aren't free to make some entrepreneurs richer by buying their products and others poorer by refusing to buy theirs. In Russia, there is a shortage of soap because the consumer is prevented from expressing his sovereignty on the market. In Russia, central planners, not consumers, are sovereign. □

Solidarity and Labor Law Reform in the 1990s

by Charles W. Baird

At its 18th biennial convention, held in Washington, D.C., last November, the A.F.L.-C.I.O. again called for major reform of U.S. labor law along the lines of the failed labor law reform bill of 1978. That bill would have made it much more difficult for employers to compete with unions during certification election campaigns and would have greatly increased the penalties imposed on employers found to be in violation of the pro-union rules. It would have made it much more difficult for nonunion workers to remain union free.

Lech Walesa, the leader of Poland's Solidarity union, was the guest of honor at the November convention. He gave a speech in which he thanked the A.F.L.-C.I.O. for its assistance in Solidarity's struggle against Communist oppression in Poland. He even taped a "union yes" television ad for his hosts. Lane Kirkland, the newly re-elected A.F.L.-C.I.O. president, also gave a speech. He accused the Bush Administration of hypocrisy in its simultaneous support of Solidarity and its resistance to the political agenda of the A.F.L.-C.I.O., and he promised a "renaissance" for the union movement in the 1990s.

With less than 13 percent of the American private sector work force in unions, a number that has been falling each year for 30 years, the A.F.L.-C.I.O. has even less political clout than it did in 1978. The prospects for pro-union labor law reform are bleak. However, Mr. Walesa's participation in the convention and his taping of the commercial are a boon for the A.F.L.-C.I.O. Ameri-

cans appropriately have enormous respect and admiration for Mr. Walesa and Solidarity. His endorsement could make the A.F.L.-C.I.O.'s political agenda more salable.

Solidarity and American unionism are very different things. Mr. Kirkland and the A.F.L.-C.I.O. are inappropriately attempting to free ride on Mr. Walesa and Solidarity. Solidarity is a union all right, but it is not an American-style union. It is primarily a pro-democracy movement made up of workers who voluntarily came together to resist, and later overthrow, one-party dictatorship in Poland. It stands for pluralistic, multi-party democracy with regularly scheduled elections.

American unionism, in contrast, is structured by existing labor law as one-party monopoly rule. It is anti-democratic insofar as it stands for one-man, one-vote, once.

The National Labor Relations Act is based on the principle of exclusive representation. Once a union wins a certification election, it represents all workers on the job. No other union may represent any of the workers, even if some workers want it to do so.

Winner-Take-All

Unionists justify exclusive representation by analogy with winner-take-all elections of members of the House of Representatives. Each member is a monopoly representative of his or her district; so, by analogy, it is proper for a winning union to be a monopoly representative of workers for collective bargaining purposes.

The analogy is inapt. First, the sale of one's own

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