

ECONOMIC CONTROLS: DIALECTICS OF EFFICIENCY AND FREEDOM

By Oleg Zinam

Economic control is a basic and essential but not the most important aspect of social control. Social control encompasses all means, methods and institutions which provide incentive and sanctions necessary for the orderly performance of vital social functions. Economic control facilitates the orderly and peaceful performance of economic functions of using scarce material resources to produce goods and services for the satisfaction of human wants and distributing income among those who contributed to their production. At any given point of time, existence of this economic control is manifested in the rules of the game which control economic activities of production, exchange, distribution and consumption. These rules emanate from two principle sources: (1) ethical standards embodied in customs, mores and traditions of society and (2) explicit norms of behavior formulated by law-givers. The former are the results of a subconscious evolutionary process leading back to the very roots of the origins of social order. The latter are explicitly formulated by the legislative to modify existing laws.

Rules of the game regulating economic activities of both the traditional and legal kinds are given in the short run. In the long run, however, these rules, as well as rules for making rules themselves, can be altered. Hence, in the long-run the possibility of choosing between alternative types of systems of socio-economic controls is added. This result can be attained either by an orderly democratic process or by the violent overthrow of the existing order. In Hayek's words, "If in the long run we are makers of our own fate, in the short run we are captives of ideas we have created." (1) Philosophically, in libertarian societies, the choice among different types and degrees of economic control involves the perennial dilemma of reconciling conflicting requirements of preserving human freedom while maintaining the orderly performance of economic functions. "Since freedom and all change conflict more or less with order, the primary essential," wrote Knight, is that "a delicate balance must be struck and maintained." (2)

Economic Control and Pure Types of Economic Systems

At any given point of time the existing rules of the game determine *who* in a given society has power to decide *what* is going to be produced, *how* resources are to be allocated for this production and *for whom* economic goods and services are produced. How this central question is answered depends primarily on certain important characteristics of the economy's "decision-making structure." Whether the government or individuals in their capacity as producers and consumers possess this ultimate power and to what extent, depends primarily on society's organizational and power structures which emanate from it. Of crucial importance is whether political organization is highly centralized and controls economic organization or whether it is decentralized by the principle of division of power and separated from economic organization. The role of ideologies and their impact on the formation of preferences is essentially different under these alternative organizational and power structures. Of crucial importance, however, is the effect of organizational and power structure on *whose* preferences become effective. (3)

Understanding economic control is important not only because it is essential for the adequate description and prediction needed for formulating economic policies, but also because its characteristics and extent have thorough-going implications for economic efficiency, quality of life, freedom and human dignity. The almost unsurmountable difficulties in defining quality of life, freedom and human dignity are fully recognized. Yet, any society must reach some implicit or explicit degree of consensus on the content and meaning of these concepts.

To facilitate the analysis of real economic systems as they exist in the outside world in an impure or mixed form, it is necessary to resort to the use of ideal or pure types in the Weberian sense. (4) These pure types will reveal how control is exercised in diverse economic systems with strikingly different organizational and power structures. The ideal or pure types used in this study are denoted as Perfect Market Economy or M-P-D (Market-Private Ownership of Capital-Democratic Political Structure) and Absolute Command Economy or K-G-T (Command-Collective Ownership of Capital-Totalitarian Political Structure).

In terms of crucial variables of organization, power, value-systems, preferences and effective freedom, these ideal types have the following characteristics:

In a Perfect Market Economy, political and economic organizations are separated. Neither dominates the other. Political organization is decentralized and based on separation of power. Capital is privately owned and permitted to be used for private profit. This type of organization leads to separation of political and economic power, a political system based on checks and balances, competitive political order and political democracy. On the ideological level, the individual is considered supreme over the collective. Society exists primarily to assist individuals to attain their destiny. In both economic and political realms individuals have the right to make their own choices.

Separation and decentralization of economic and political orders in such a society facilitate the existence of competing ideological systems and protect the individual's right to dissent. Under the M-P-D order, individual preferences become effective while the government's preferences tend to reflect the preferences of the former. In the realm of economics, market forces determine individuals' opportunity functions. All of these characteristics assure freedom of consumer choice, occupational choice and freedom of business decisions within the framework of government which limits itself to external defense, to upholding law and order and to the control of natural monopolies.

At the opposite pole of the spectrum, in an Absolute Command Economy, political organization dominates economic order. Governmental central planning fully controls economic activity while political order is totalitarian. Factors of production are collectively owned. Power structure reflects society's organization. All political and economic power is concentrated in one center. It is a closed power system in which a self-appointed elite enjoys a monopoly of all political and economic power. In such an ideal socio-economic order, ideology stresses superiority of the collective over the individual. Only the rulers' ideology is permitted; any ideological dissent is ruthlessly suppressed. Education and systems of information are geared to the conditioning of individuals' beliefs and preferences. Government's preferences are effective, while the preferences of individuals are rendered ineffective by restricting their opportunity functions

and by conditioning. Government enjoys most of the effective freedoms in both political and economic realms. Consumer sovereignty is replaced by planners' sovereignty.

All real socio-economic systems represent some mixture of elements contained in extreme pure types. Nevertheless, the implications of organization and power structures in pure types and the impact of these structures on ideologies, preferences, opportunities and effective freedoms of individuals, groups, organizations and governments must be thoroughly studied because they have a definite effect on the quality of life of the people, (6) their freedom and human dignity.

Economic Controls, Efficiency, Well-Being and Human Dignity

Economic controls affect total human well-being or quality of life, though the impact on economic well-being seems to be more immediate and more evident. Whether the impact of controls is measured in terms of per capita income or rate of growth of total per capita National Income, the problem is always one of efficiency. Yet, efficiency alone is not enough since ill-advised objectives pursued with rigor and efficiency can be even more damaging to an economic system and the well-being of individuals than a sound economic policy implemented inefficiently.

If a society agrees on its economic objectives, what level of controls is just right to attain these objectives? If costs and benefits from economic controls, as well as economic controls themselves, were homogeneous and infinitely divisible, an optimum level of controls could be defined as that point where marginal benefits just equal marginal costs. But this is very rarely the case and marginal analysis utterly fails in most attempts to calculate the optimum volume of controls needed to attain certain reform or change in the rule of the game in the market.

This is aggravated by an inevitable divergence between economic and social costs. It has been argued that much economic efficiency might be associated with the infliction of social costs which are disproportionately large in comparison to the economic benefits secured. Moreover, on the global level, and in a broad historical perspective, economic well-being is not a guarantor of a good life and the happiness of a society. Some writers even condemn economic growth as detrimental and

destructive to some important human values. The advocates of the Zero Economic Growth policy seem to echo the contentions of John Stuart Mill that a stationary state, contrary to Ricardo's views, should be considered a blessing rather than a calamity. Most economists, however, defend the necessity for improvement in material well-being on the grounds that it broadens the human range of choice for good or evil. If people misuse their freedom to reduce their over-all well-being by an imprudent life style, that's their problem and not the concern of economists.

Nevertheless, there are some disquieting signs that "the quest for higher standards of living is becoming an end in itself, with these standards being defined in exclusively economic terms" and that "higher things are esteemed according to their usefulness for the lower things." (7) This raises the question of the primary purpose of aiming at higher and higher material well-being. It should lead to a higher over-all well-being which is extremely difficult to define even in terms of a weighted quality of life index including the most important facets of human existence: political, aesthetic, moral and others along with the economic.

As stated before, in the short run, controls are given and the concept of quality of life cannot be substantially changed, while in the long run, the rules of the game and even the rules for making or changing the rules themselves can be substantially or even drastically altered. This adds an additional dimension to the concept of over-all well-being, that of availability to members of society of effective freedom to change both the quality of life desired as well as the type and character of controls determining the rules of the game in socio-economic life.

Effective freedom to participate in decisions moulding the destiny of man is closely associated with the concept of human dignity together with the idea that human dignity cannot be maintained unless some minimal levels of over-all well-being are provided to every human being within society. The rest of this article is devoted to the analysis of the crucial question of the impact of alternative methods of socio-economic organization providing different types and amounts of economic controls on quality of life and human dignity.

Some Recent Historical Examples

Among the objectives set by governments in their efforts to

improve the material well-being of their citizens one usually finds full employment, adequate economic growth, stability of prices and equitable distribution of income and wealth. In libertarian countries governments frequently include, implicitly or explicitly, the goals of maintaining or even expanding economic freedoms such as freedom of consumer choice, freedom of occupational choice and freedom of business decisions.

In some cases there is need for a trade-off between economic freedom and efficiency in attaining other important economic objectives. In others, controls are carried too far, and efficiency can be improved only by their diminution or even removal. Economists disagree at what point economic controls reach the optimum beyond which their increase becomes harmful.(8)

In the USA, proponents of "managed capitalism" like Paul Samuelson, Walter W. Heller, John K. Galbraith and Alvin H. Hansen, accept more governmental intervention in economic affairs while "free economy" economists such as Arthur Burns, Milton Friedman, Frank H. Knight, Henry G. Wallich, and George J. Stigler believe that controls are already beyond the point of diminishing returns. (9) In Great Britain the Labor government went too far in its push to equalize income and reduce inequality of wealth and is paying for violating the admonition by Wallich that "we must furnish welfare without destroying initiative and provide security without doing injury to incentives," (10) by high rate of inflation and unemployment.

But even totalitarian governments in which "importance attributed to an individual is notably absent" and is valued "only in so far as he serves the state," (11) economic controls can become too stringent and overcentralized. Such an economy might suffer from diminishing returns to overcentralization due to its complexity rapidly outrunning the capabilities of control mechanisms to deal adequately with the consequences of rising complexity.

This was the case in the Soviet Union in the 1960's. Some Soviet economists and academicians proposed an economic reform to liberalize the system and make it more efficient. Yet, when under Krushchev an attempt at economic reform was undertaken and a considerable amount of decision-making was shifted from the center to individual republics, the fear of the political implications of such a drastic change in the economic sphere led to the Brezhnev-Kosygin counter-reform which

essentially returned power to central ministries and curbed powers delegated to the republics.

The counter-reformers felt that "there is no advance assurance that such a process of transformation would not disrupt the whole intricate web of centralized control levers that make up the authoritarian political system of the USSR." (12) This is a case of controls being carried well beyond the optimum at which freedom and efficiency become complementary and to increase efficiency, controls have to be reduced. Leaders in the Kremlin refused to gain economic efficiency at the cost of granting more decision power to lower authorities and the people themselves. (13)

In the long run, a socio-economic system can gradually evolve from a predominantly free market to a different type of system called "democratic socialism." In Great Britain this happened after World War II. The landslide victory of the Labor party in 1945 was at least partially due to a shift in the preference of the majority of the people in Great Britain from one concept of freedom to another. In Hayek's terms allegiance to "freedom from coercion, freedom from arbitrary power of other men," was substituted by the acceptance of a new freedom from "despotism of physical want" from the "restraints of the economic system" and "from the compulsion of circumstances which inevitably limit the range of choice of all of us, although for some very much more than for others." (14)

Competing Concepts of Freedom

In planned command economies the rulers use this second concept of freedom together with another much broader and nobler concept of voluntary subjection to highest value which could be defined as altruistic service to a collective, usually a nation. This type of freedom involves sacrifice which can be very appealing, especially to young idealists desiring to lose themselves in a cause greater than themselves.

Unfortunately for the individualistic type of freedom, it includes also freedom to relinquish freedom and "to be relieved of the necessity of solving his own economic problems." (15) Moreover, the quest for security, at any given historical time in a nation might become so overwhelming that people would stress that "without economic security, liberty is not worth having." (16) The prevalence of such a concept of free-

dom or rather escape from freedom, greatly contributed to the victory of the Labor party in 1945 in England. Moreover, in a democratic market economy, a violent revolution is much easier to achieve. This makes it much easier to replace the existing order with an autocratic command economy than to reverse such a change.

In most theoretical treaties, egoistical behavior is usually attributed to individuals, but very seldom to governments. There exists "a common supposition that government's proper function is the maximization of social welfare." Many theorists "fail to apply the self-interest axiom to governments, although it is the foundation of analysis concerning private economic agents." (17) Since governments are not run by altruists, they cannot be adequately treated by any theory which disregards its organizational and power structure. A government in a command economy controls greater coercive power and can disregard preferences of individuals to a much higher degree than in a free market economy.

Totalitarian governments have a much greater potential than a democratic one to "force people to act against their own immediate interests in order to promote a supposedly general interest" and "to substitute the values of outsiders for the values of participants" either by telling them what is good for them or by taking from some to benefit others. (18)

For ideological reasons and to attract people's allegiance they claim to have formulated superior concepts of freedom and human dignity than their adversaries. And indeed in their purely theoretical form they are deeper, nobler and loftier than libertarian definitions based on individualism. They emphasize an altruistic aspect of these terms. Freedom becomes a voluntary subjection to the highest values embodied in the highest aspirations of a collective, be it society or nation, or the universal union of all workers of the world, while human dignity is derived from a degree of selflessness in serving the collective of which the individual is an organic part.

Astounding Historical Paradox

Despite the claims to ethical superiority of socialist concepts of freedom and human dignity, historical evidence suggests that economies based on these principles have in no way performed better than predominantly market economies. Paradoxically,

the capitalistic systems based ideologically on a rather egoistical motto: from each according to his will to contribute, to each according to his marginal product, have fulfilled the yearnings of men for a higher quality of life and the realization of human dignity much better than their socialist counterparts founded on the romantic and more human credo: from each according to his ability, to each according to his needs.

The reasons for this paradox are manifold and complex. Both the founding fathers of the laissez-faire type of social order and the founding fathers of the American republic had a realistic view of human nature, its relations to power, society and government. They saw individuals as potentially egoistical. One of the principal merits of the social order based on the division of power advocated by Adam Smith and his contemporaries is that "it is a system under which bad men can do less harm." (19)

The assumption of altruistic and perfectible individuals, the superiority of collective ownership, central planning, and governmental control of economic activity underlying socialist doctrines have led to unintended paradoxical consequences. The socialist theorists, fearful of private exploitation, did not envision the possibility of the exploitation of individuals by powerful centralized governments ruling in the name of the collective, or of society as a whole. The attractive slogan "all power to the people" turned out to be in practice, "no power to the people" — but all power to government acting in the name and, presumably, in the interest of the people. Eventual destruction of market forces under such a system leads to severe restrictions of individual economic and political freedoms and to suppression of human rights and aspirations.

The abysmal difference between the utopian promises of the Marxist-Leninist revolution and the grim reality of the regime imposed by it is common knowledge. Marxism-Leninism promised an end to the exploitation of man by man; the greatest freedom to the largest possible number of people; the withering away of the state; an end of colonialism and imperialism; the fostering of brotherly cosmopolitanism; a classless society; the elimination of bureaucratic abuses and an era of abundance for all. What it has delivered is: Exploitation of the masses on an unprecedented scale; slavery to the largest number of people in history; a totalitarian state; the greatest colonial empire on

earth; oppression of weaker nations by stronger ones; a rigidly stratified class society; the most oppressive and inflexible bureaucracy the world has ever seen; and continual denial to citizens under its control of the level of quality of life they would have attained in a free society. With their freedom reduced to serfdom, the citizens who yearn for freedom and are courageous enough to stand for their rights have a choice between the dignity of martyrdom or the dignity of resistance in the face of overwhelming odds.

Because of their realistic assumptions about human nature, society and government, free enterprise countries have achieved what other systems, based on less realistic premises, promised but utterly failed to attain. The benefits the free market systems have provided their people in terms of quality of life are unprecedented in the history of man. Relying on market forces and peaceful competition and cooperation of all social groups within a democratic political setting of individualism, populism and pluralism, the USA, the most advanced post-industrial market economy, has built the closest approximation possible to the classless society. Two major factors in market economies contributing to respect for human dignity are the relatively high measure of effective freedom in making decisions affecting the individual's own destiny and the relatively high level of quality of life he can attain with the economic means at his disposal.

Capitalism's greatest strength lies in the powerful incentive to compete, based on healthy self-interest of individuals, in the flexibility and adaptability of its institutions, and in the economic and political freedoms made possible by a free, elective political system based on division of power. Among its weaknesses are lack of automatic macroeconomic controls, the tendency toward the formation of oligarchies and monopolies, and the possibility that self-interest misunderstood and carried too far might severely damage and even destroy the free enterprise system. Moreover, paradoxically, the very success of the system in creating a high quality of life, and a broad range of choices for the people, harbors the danger of all successful orders — they are taken for granted and the forces which sustain their existence are not clearly understood. The resulting indifference and lack of will to defend such an order is reinforced by the decline of competition, separation of ownership from

control and restrictions imposed on freedom of contracting.(20) In addition, such forces of modernization as the "revolution of rising entitlements," *anomie*, and the decline of the philosophy of individual responsibility are endangering the very foundation on which the free competitive system rests.

FOOTNOTES

(1) Friedrich A. Hayek, *The Road to Serfdom* (Chicago: The University of Chicago Press, 1944), p. 2.

(2) Frank Knight, *Intelligence and Democratic Action* (Cambridge, Mass: Harvard University Press, 1960), p. 34.

(3) For a detailed description of the theoretical framework dealing with this problem consult Oleg Zinam, "The Economics of Command Economies," *Comparative Economic Systems*, Jan S. Prybyla, Ed., (New York: Appleton-Century-Croft, 1969), pp. 19-46; "Cross-Sectional Analysis of Economic Systems: Functional-Structural Approach," *Riviste Internazionale di Scienze Economiche e Commerciali* (April 1974), pp. 312-333, and "Method of Specialized Holism: A Model for the Comparative Study of Socio-Economic Change," *International Behavioral Scientist* (Sept. 1974), pp. 39-56.

(4) Max Weber, *The Theory of Social and Economic Organization*, Henderson Parsons, transl., (New York: Oxford University Press, 1957), p. 14.

(5) Zinam, "Cross-Sectional Analysis of Economic Systems: . . .", pp. 322-325.

(6) For a brief treatment of the quality of life in relation to population problems, see Oleg Zinam, "Optimum Population Concept and the Zero Population Growth Thesis," *Economia Internazionale*, (May 1974), p. 6., "Optimum Population Growth and Quality of Life," *International Behavioral Scientist*, (Sept. 1975), pp. 32 & 34, and "Zero Population Growth, Optimum Population Growth, Optimum Population and Quality of Life," *Journal of economics*, Vol. 1 (1975), p. 69.

(7) Werner Levi, "Economic Development and Human Values," *Readings in Economics and Politics*, Second Edition, H.C.H. Harlan, Ed., (Oxford University Press, 1958), p. 727.

(8) In technical terms if use of control is sub-optimal, freedom (in the sense of controls) and efficiency are competitive goods or substitutes, hence the argument of trade-off. Yet, after the optimum point is reached, freedom and efficiency become complementary and, consequently, less controls would mean more efficiency.

(9) Allan G. Gruchy, *Comparative Economic Systems* (New York: Houghton Mifflin Co., 1966), pp. 224-228.

(10) Henry G. Wallich, *The Cost of Freedom* (New York: Harper and Brothers Publishers, 1960), p. 11.

(11) Heinz Koehler, *Welfare and Planning: An Analysis of Capitalism versus Socialism* (John Wiley and Sons, Inc., 1966) p. 163.

(12) Joint Economic Committee, U.S. Congress, *New Directions in the Soviet Economy* (Washington, D.C., 1966), pp. X-XI.

(13) Oleg Zinam, "Soviet Russia at the Crossroads," A Paper presented at the meeting of the Ohio Association of Economists and Political Scientists, Worthington, Ohio, March 1967.

(14) Hayek, *The Road to Serfdom*, p. 26.

(15) Ibid., p. 92.

(16) H. J. Laski, *Liberty in the Modern State* (Pelican Edition, 1937), p. 51.

(17) Ibid., p. 293.

(18) Milton Friedman, *Capitalism and Freedom* (Chicago: The University of Chicago Press, 1962), p. 200.

(19) Friedrich A. Hayek, *Individualism and Economic Order* (Chicago: The University of Chicago Press, 1948), pp. 11, 12.

(20) Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, (New York: Harper and Brothers, Publishers, 1947), pp. 140-142.

SOCIAL ENGINEERING VIA "LANGUAGE GUIDELINES": AN EXAMPLE OF OCCUPATIONAL BIAS AMONG INTELLECTUALS

By Barry D. Baysinger

Professor Thomas Sowell of UCLA has recently presented an analysis of the role of intellectuals in the public policy process which suggests that a Philosopher Kingdom would be rather less than ideal. (1) Stated more succinctly, it appears that the wealth and freedom of a society may vary in inverse proportion to the extent that political control is directed by intellectual "experts." Intellectuals make their livings from the production and transmission of highly formalized ideas. They are specialized in the generation and use of highly articulated forms of knowledge. Therefore, they tend to look down upon other less articulated, though not necessarily less useful, forms of knowledge, and to promote social institutions which require articulated rationality for their successful operation. According to Sowell's analysis, the downfall of the Philosopher Kingdom is assured by the fact that some of the most useful knowledge in society is that which exists in unorganized forms.

Preferred Forms of Knowledge

As Professor Hayek observed long ago, the basic economic problem of society concerns the ability to direct highly dispersed but useful knowledge to the points where decision making takes place. (2) Once the goal of maximizing the subjective value of given resources, as perceived by free individuals, is accepted as a norm, it becomes crucial that accurate information about changing preferences and relative scarcities be effectively transmitted to those responsible for reacting to such changes. Hayek called this information the knowledge of the particulars of time and place. The people who deal in such knowledge are men of commerce or trade, not intellectuals.

Since scientific knowledge exists only in highly formal, organized and articulated forms, it stands to reason that it will be championed by those in society who earn their rewards from the production of this type of output. As a corollary to this conclusion, it may also be the case that intellectuals will prefer