

INCLINED TO LIBERTY

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INTRODUCTION

In the fall of 2004, I had the pleasure of hosting several dinner guests at my home that included a few professors from our local university. One professor I had never met, and another I'd encountered only briefly at a lecture he was giving on Immanuel Kant. My friend, who also attended, knew both well, and had warned me that they were sympathetic to socialism or even Marxism. I knew he was anxious to get us together, since I had mentioned to him some time earlier that I would find an evening with a socialist quite exciting. That evening was not a disappointment. After customary delays of dinner and small talk, one guest fired the first salvo, and the fireworks commenced. Wine drowned any and all inhibitions. It was a stimulating and educational evening for me. There is much to learn and consider when a strong-minded adversary is challenging one's beliefs. The greatest learning is not that which takes place during a face-to-face argument, but later, at least for me, when the adversary's ideas keep nagging at your beliefs.

During that evening, I found myself reliving the past, hearing words such as "workers" and "capitalist." What I heard took me back some 40 years, to when I first found myself inclined to liberty. At that time, many libertarian discussions were centered on communism. Although words such as "proletariat" and "bourgeois" were not used that evening, the references to the poor and the rich reminded me of the Marxist class struggle between the downtrodden proletariat and the bourgeois property owners. I had thought that some of the more radical ideas being proposed that evening had suffered mortal wounds some 15 years earlier. That was the supposed end of a human experiment which tested the ideology of central planning and a rigid authority over the lives of a large segment of humanity; an experiment which resulted in the death and suffering of countless millions, many of whom continue to suffer today. Caged fellow human beings were not allowed to escape the confines of the laboratory until their restraining wall collapsed and their bureaucracy imploded. While Marx's ideas were abstract and well intended, the unabashed use of a totalitarian state under his name did not result in an abstract economic textbook lesson, but a real, living example of how humans act under such rigid conditions. And, it was recent. One doesn't have to be an economist to know that there must be a lesson to be learned, nor a humanist to be horrified by what resulted. I hope to touch on that lesson and why similar experiments will lead to similar results.

WHY WRITE?

While writing this, I keep asking myself, "Why write?" Will I come up with such a unique view of the world that someone with a socialist bent will, after having read it, exclaim,

“Oh! Now I see the light”? Hardly! Writing may not gain advocates, but it does help one to codify his thoughts.

I often wonder why those who have strong opinions about social affairs seem to be attracted towards one of two opposing poles. There are those inclined to liberty – freedom of the individual to conduct his life in any peaceful way. And there are those inclined to mastery – permitting liberty only to the extent authorized by a ruler. It seems that once inclined, so inclined for life. Without even knowing the source, why are some inclined to agree with, say, a passage written by Milton Friedman but not with one written by John Kenneth Galbraith, or vice versa? It is rare, in my experience, that persons who align themselves with one camp or the other will, upon seeing some new evidence or hearing an argument contrary to their belief, switch camps. Perhaps we carry genes that predispose us to one inclination or the other, and evidence will have little, if any, impact on changing our point of view. So why debate the issue if we are so pre-inclined? There does seem to be a spirit within us to convert others to our beliefs without having assessed the real value of such conversions. After all, what one person believes doesn't obstruct the belief of another. If one converts a socialist to a libertarian, or an atheist to a Christian, or vice versa, what is gained? Maybe the gain is simply the comfort we experience when someone else reconfirms that our beliefs are right after all.

Whatever the case, the dinner party was a successful event, in that it gave me a learning experience, the joy of which I would have missed without it. I thank my guests, and my friend Don De Francisco in particular, for having made it possible.¹

THE PROPOSITIONS

Some of the propositions made that evening were:

“No one should be allowed to own a yacht.”

“No one should be allowed to own property.”

“The salaries of company executives are too high.”

“No one should be allowed to inherit wealth.”

“Rich employers are free riders.”

The statement I found most intriguing and which initially drove me to write this response was:

“It is not fair that companies can terminate their workers in order to increase profits.”

As I thought of a response, I came to realize that this proposition was no different in principle from the others. While some were more radical than others, each proposition contained a notion of unfairness, and a notion that “we” must do something to right it.

Reading these notions into their propositions they become:

¹ For those inclined to the culinary arts, the fare that evening included barbecued rack of lamb, garnished with garlic and rosemary, roasted red peppers, broccoli, penne alla cecca (penne pasta, fresh tomatoes, basil and garlic) and several bottles of California, French, and Italian wines.

It is unfair that someone can earn so much more than another, so “we” must prohibit people from earning so much. It is unfair that someone can own a yacht, so “we” must prohibit such ownership.

It is unfair that someone can bequeath wealth to an heir, so “we” must disallow such transfers of wealth.

It is unfair that some are able to own more property than others, so “we” must prohibit the ownership of all property.

It is unfair that an employer can terminate an employee for no other reason than to improve profits, so “we” must prohibit employers from doing so.

The “we” in each of these cases is the *royal we*, that is, the state. The “we” connotes a moral justification for physically forcing others to live their lives as the “I” sees fit. Imagine how a proposition would sound if the “I” were used instead of the “we.”

The salaries of executives are too high, so “I will personally threaten to incarcerate or kill any executive who accepts a salary and any company owner who pays a salary higher than what “I” think is reasonable.

“I” will incarcerate anyone who buys, builds or sells a boat for noncommercial purposes that “I” consider too large and luxurious, etc.

A prohibition by the state implies incarceration or death if refusal to comply is carried to its ultimate end. Although incarceration and death are hiding in the background of each proposition, the realization of such physical punishment is brought to the foreground when we substitute the “I” for the “we.” The “we” seems to moralize an act which the “I” would consider reprehensible.

BLAME

Surrounding the notions of “unfairness” and “we must do something to right it” are the implications of fault and contempt. Contempt for the rich yacht owner; contempt for the factory owner; contempt for the executive; contempt for those who have more property; contempt for the drug companies, the oil companies, the Wal-Marts. In a nutshell, each proposition paints a picture of a villain, a victim, and an emancipator, *i.e.*, the rich, the poor, and, with the help of the state, the proponent, respectively. Implied by each proposition is not simply that “the poor are too poor and the rich are too rich.” The very heart of each of the propositions is that the *cause* of the poor being too poor is that the rich are too rich. With this belief, the “haves” are to blame for keeping the “have-nots” from gaining wealth. If the rich had less, the poor would have more. We hear this notion with references to the filthy rich, the selfish rich, the greedy rich, the unscrupulous rich, the unworthy rich, the insensitive rich, and the evil rich.

IN A WORLD OF INEQUALITY, ARE THERE VILLAINS AND VICTIMS?

Why do some insist on envisioning in a world of inequalities the existence of villains and victims? Does it stem from a belief that there is a static quantity of wealth or resources in the world, and when someone gets more than his equal share, someone else must get less than his? Or does it stem from a belief that those who have garnered more wealth than others have undeservingly done so because of unscrupulous, greedy, or inconsiderate behavior? Or possibly it stems from envy, resentment or an attempt to increase one's status by decreasing that of others.² Perhaps it stems from one's superior moral standing that authorizes him to judge how others ought to live their lives.

For some, the villain/victim assertions may stem from none of these beliefs; for them, they are simply a regurgitation of what they have read and heard in the news. This is particularly so when one belongs to a political, religious, or racial camp. Camp leaders, especially political ones, are in the news daily, damning their adversarial camp leaders for some trumped-up headline grabber. For those who join a camp, the spokesperson of their camp becomes a kin, and those in the opposing camps automatically become foes. No matter what the kin says, they buy it, and they despise whatever the foe advocates. It's easier to become a parrot when aligning with a group, be it political, religious, racial, or whatever, than to think things through for oneself. No matter what the group, the spokesperson will give the crowd what they want to hear – that's why they're the crowd. They have gathered to support their kin, and maybe pick up another one-liner to put in their quiver to thoughtlessly shoot at the next foe's group member they encounter. Unless one is critical about whether his spokesperson's statements make sense, a follower could be advocating policies that will produce the very opposite of what he desires.

THEM VERSUS US

During the 2003 presidential campaign, one candidate decried, "Two Americas: one privileged, the other burdened. One America that does the work, another that reaps the reward. One America that pays the taxes, another America that gets the tax breaks."³

Slogans like this are pleas to the masses: "Vote for me, and I'll get you your fair share of the wealth that you deserve, by taking it from those who have more than you. Vote for me, and I'll rob Peter (that's them) to pay Paul (that's us)." Pitting the rich against the poor is only one of the many foot-stomping campaign themes based on the notion of "them versus us." Self-appointed leaders pit whites against blacks, men against women, factory owners against workers, Chinese (name any foreign entity) against Americans, new immigrants against descendants of old ones, and so on.

² Resentment can give way to *schadenfreude* - taking joy in other people's suffering. "Through resentment we make it sound as though we are lucky not to have those things that we want but don't have. We feel self-righteous precisely because we are not rich." Robert Solomon. *The Passions: Philosophy and the Intelligence of Emotions*. Lecture 8, The Teaching Company: 2006. Friedrich Nietzsche expressed *resentment* as inexpressible vengeance in which we turn values upside down in what he called "the transvaluation of values." Jean-Paul Sartre said that resentment was an act by which we escape responsibility for the world that we find too difficult.

³ According to the Internal Revenue Service 2002 report, over 50% of the tax revenue came from the top 5% of the taxpayers, 80% came from the top 25% and virtually all (96%) tax revenue came from the top 50%.

Following these pied pipers and their pipe dreams is a good way to never get what they promise us or what we desire. Blaming others for what we don't have directs our energy and ingenuity away from the only reliable source of achievement: self-reliance. Once we realize that no one owes us a life free of misery, we begin to search for real remedies, instead of wasting time and energy accusing others of causing it.

Every U.S. election campaign is a tug of war between grades of Robin Hoods, each accusing the other of either giving too little and taking too much, or taking too little and giving too much. Why people get so riled up about every grievance they have is that they are constantly bombarded with the notion that they are the victims of someone's plot to under take or under give. With these stories constantly in the news, it's easy to develop a conspiracy complex or paranoia about anything we don't like by blaming it on someone committing "murder" or someone getting away with it. If gasoline prices are seen as too high, blame the oil companies. If drug prices are seen as too high, blame the drug companies. Tomorrow it will be someone else who owes us a free this or a cheaper that; just stay tuned and our congressman will give us the next culprit in vogue. The bumper sticker "Corporate Greed vs. Human Need" is an example of such paranoia.

In a democratic society, where everyone has a say about everyone else's lifestyle, it's no wonder we spend so much of our time in debate over one man's pet peeve and another's grand solution. In a self-reliant society, pet peeves may keep us awake at night, but in a democratic one, we can spend a lifetime creating one pet peeve after another, because we now have a voice. And who doesn't want to be heard, particularly when we know that someone holding a gun will listen? So the villain/victim ideas get into the news and into the rationale for new legislation. And, yes, into dinner-table discussions as well. Those advocating political policies often base their cries upon a battle between good and evil, fair and unfair, just and unjust and, equally as often, the results following the adoption of such policies lead to the least good, least fair, and to that which is the least just without their advocates even knowing why.

PAINTING MENTAL IMAGES

Envision the mind's picture when we hear, as stated that evening, that companies fire workers just to make a profit. We see poor workers living from day-to-day who are now out of a job, with their families unable to maintain a decent standard of living. They are envisioned selling their small homes and becoming wards of the state. This is a sad picture indeed, and one to which we can all be sympathetic. The sad "picture" is embellished by envisioning the ogre employer who pushes these workers out into the street with little regard or compassion for their suffering. We may even picture the employer going home to his family without much more than a bump in the road. He may have to sell his yacht or buy a Lexus instead of a Mercedes, but he does not gain our sympathy.

Mental pictures resulting from these types of phrases are painted in a flash and, depending on one's stance, can erupt into a quick emotional reaction. There should be a law! How can one be so cruel! We paint a picture with the philosophical, political or religious brush of our leanings. Then our mental picture is conveyed to others with personalized coloring.

We are inundated with stories, usually distorted stories, in the media. We build these mental pictures with very little understanding of the circumstances. These types of anti “x” of the day are crowd gatherers, and fill newspapers, talk shows and television news programs and work their way into movies. We believe the other guy is never as wise, fair, moral, compassionate or nice as we are.

MANNA FROM HEAVEN

“If you think health care is expensive now, wait until it’s free.”

–P.J. O’Rourke

“If wishes were horses beggars would ride.”

–proverb

The notion that one man’s need is another man’s obligation has become so engrained in the minds of people around the world, that revolutions, riots and demonstrations erupt almost weekly in one part or another, when people blame their state or some leader for not providing them a better life. Many seem to believe that the state can miraculously provide everyone prosperity by creating and distributing wealth. Like manna from heaven, they see the state as the source of a “free lunch.” Not surprisingly, the “free lunch” idea is reinforced by nearly every prospective political leader. They tempt voters with an assortment of freebies, and, when elected, they add their offerings to all those already on the table. You name it; there’s a free lunch for just about anything you can imagine. Beyond the standard fare of free healthcare, food, education, roads, transportation, etc., are the grants of free cash for again about anything you can imagine: housing, business, minorities, college, research, etc.

As quipped by P.J. O’Rourke above, the most expensive lunch is a free one. There is a real world and in it someone must work to provide and pay for all this stuff, and it isn’t the state. States only provide that which they have plundered directly by way of taxes from those who are hard at work producing real goods and indirectly from them by way of printing fiat money. States may also use borrowed money, but that only increases their future dependency upon direct and indirect plunder as their means to repay lenders. The amount of all this manipulation and skullduggery boggles the mind, making it virtually impossible to calculate the actual dollar cost of all these “free lunches.” The greatest damage, however, is not the up-front plunder, but rather that which is inflicted on the very ones who are enticed into the “free lunch” dependency trap.

THE FALSE LURE OF DEMOCRACY

Some may argue that a few of the propositions made that evening were out in never-never land. But are they in principle so different from the outcries we hear from political candidates, the news media, special interest groups, and even a good share of the general public almost every day?

The very essence of democracy encourages everyone to get involved and to express opinions about human activities that are none of their business. There are few days that I am not asked what I think “we” (the royal “we”) should do about this or that, things that are clearly none of my business nor theirs. It is not the answers to such questions that

should give us concern; the mere *asking* has become so commonplace with a sense of democratic pride that nearly everything is considered to be public domain.

A democracy invites everyone to participate in deciding for everyone else how they should live their lives, run their businesses, and practice their religion, whom they can marry, what they can teach, what they can eat, what they can drink, how they can die, with whom and how they can engage in sex, where they can go, what they can plant, what and where they can smoke, whom they can hire, the wage they can pay, what they can sell, the prices they can charge, what and when they can buy, how much they can sell, the medicines they can take, what they can say, and, yes, even whom they can and must kill. And on and on.

Almost incomprehensibly, in 2004 there were 78,851 pages of newly proposed regulations posted in the U.S. Federal Register. Just about average for the past ten years. Federal regulations, coupled with those of state and local governments, have reached the point where virtually every human act is subject to scrutiny by a governmental agency.

Many regulations are adopted at the urging of organizations seeking entitlements and special privileges. Obtaining favorable legislation and regulations has become part and parcel of running many businesses. Labor unions, farmers and other permanent lobbying organization such as AARP are exceptionally skilled at getting special privileges pushed through congress. In the year 2005, there were 34,785 registered lobbyists in Washington D.C. – over double the number of just 5 years earlier.⁴ Businesses engage these experts to introduce legislation, manipulate regulations and obtain special favors to prevent, subdue or overcome competition. In the spirit of “fair trade” there are numerous quotas and over 8,757 tariffs on imports into the U.S.⁵ Additionally, financial subsidies are readily available to manufacturers and farmers in order to overcome domestic and foreign competition. Farm subsidies alone reached \$143 billion during the past decade.⁶ According to the Farmers Weekly Report, nearly 70% of U.S. soybean value now comes from the U.S. government. And as can be expected (at least by those who understand human action), this has caused a 25% increase in soybean planting in the U.S. since 1998. As evidenced by their sheer number, quotas, tariffs and subsidies are especially easy to obtain in a democratic republic where one need only persuade one or two politicians, and the “one hand washes the other” buddy system takes it the rest of the way.

Democratic republics encourage political candidates to offer a more beautiful Utopia than that offered by their opponent. “Make me your master, and I will create prosperity, peace, and tranquility for everyone, no matter what it takes.” It matters little who wins the election; the winner’s desire to make his mark will lead to new levels of “free lunches” and regulations.

⁴ Jeffrey H. Birnbaum, *The Road to Riches Is Called K Street, Lobbying Firms Hire More, Pay More, Charge More to Influence Government*, Washington Post, June 22, 2005.

⁵ James Bovard, *The Fair Trade Fraud, How congress pillages the consumer and decimates American competitiveness*, St Martin’s Press 1991.

⁶ EWG Farm Subsidy Database 2005, <http://www.ewg.org/farm/findings.php>.

With every president, senator, congressman, assemblyman, and the like trying to leave his or her mark, it's no wonder we have some 12,000 new "laws" every year. During the 2006 California legislative session there were nearly five thousands bills written (1,853 senate and 3,076 assembly), of which 1,172 were passed and of which only 262 were vetoed by the governor. On the final day of that session the assembly speaker proudly stated, "I think this is going to be a landmark legislative year for us."

Regulations may be a greater impediment to prosperity than that of takings. As in takings (discussed later), regulations divert human energy from that which would have been productive to that which is not. As such, society loses the meaningful production of those involved in the creation and enforcement of regulations, of those who stand ready to assist those being regulated and, to some degree, of those upon whom the regulations fall. Virtually every major U.S. company has a cadre of lawyers, accountants and consultants to ferret through the always-changing labyrinth of regulations, identify those that are applicable, interpret their meaning, and recommend operational adjustments. This ever-increasing burden of regulations will be met with human perseverance and ingenuity that will find ways to circumvent their full impact. Many markets will operate at the margins where the ability to enforce those regulations is limited, or they will simply operate outside the state's regulatory arm. All the energy that is diverted from productive activity to that of meeting or circumventing regulatory compliance results in the reduced production of real goods and services, thereby, increasing their cost to consumers.

A democratic state will naturally gravitate to an ever-greater tragedy of the commons,⁷ where an increasing number of members try to get a bigger share of the goodies confiscated by the state. Like other egalitarian structures, free riders become privileged instead of ostracized and their rides become entitlements. As such, free riders gain equal status to those upon whom they ride. Entitlements are euphemistically called "rights" (sometimes referred to as positive or active rights) as though they have equal footing to natural rights (sometimes referred to as negative, passive, civil, unalienable or human rights). A positive or active right is a claim upon the life of another, while a natural right obliges another to refrain from such claims. Therefore a claimant of a right to a free ride is simultaneously a disclaimer of the natural rights of the person upon whom the claim is made.⁸ I don't criticize those who exploit the democratic system in order to obtain favors and resources. It is only rational to acquire resources at the least perceived cost. The democratic state simply provides a means for some to obtain resources with less effort, while preventing recourse by those from whom such resources have been taken. Without the strong arm of the state, taking resources from others would be a high risk and costly means to acquire them.

⁷ The concept of the tragedy of the commons was popularized by Garrett Hardin in his 1968 Science essay "The Tragedy of the Commons" and has been traced back to Aristotle who said: "*For that which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual.*" (Politics, 1261b34).

⁸ I do not imply that there are natural rights, since such rights make no sense to me even though many libertarians base their endorsement of liberty on them. All claims to rights imply entitlements that others are obliged to respect. One's life is one's sole responsibility, as is the gaining of respect for it. The "rights" card is often played as a trump card when one is unable to win an argument by reason or doesn't get what he desires by cooperative means.

When the opportunity to punish free riders is absent, the highest producers and contributors to the community ratchet back their own contribution to something like the group average.⁹ This iterative ratchet effect is demonstrated in many natural experiments that occurred in the former Soviet Union. The agricultural policies of the state nationalized farmland and forced farmers to organize their labor as a collective action. But they allowed 3% of the land on collective farms to be held privately, so local farming families could produce food for their own consumption and privately sell any excess. Estimates at the time were that this private land (which was of equivalent quality) produced 45% to 75% of all the food products consumed in the Soviet Union.¹⁰ These small plots saved many Russians from famine. In China, the greatest famine in human history followed the collectivization of all peasant land. Statistics indicate that at least 30 million people starved to death during 1958 – 1962.¹¹

MEANINGLESS EARNING GAPS

The news inundates us with statistics that can be, and often are, very misleading. For example, when we hear the oft-stated report, “the poor are getting poorer and the rich are getting richer,” what does it conjure up in your mind, and what does it mean? Does it conjure up a picture of the poor becoming poorer than they were previously, while the rich are becoming richer than they were previously? If so, the data refute this picture. The state of humanity is improving as a whole, and the standard of living of those in each quintile of wealth is also improving.¹² But this doesn’t provide a clear picture either. The data show that those in the lowest income quintile include most of the young just entering the work force. Many of those in that quintile move to a higher quintile as they gain skill and become more productive. The census bureau reports that those in the highest quintile earn about 50% of the total income, while those in the lowest earn 3.5%. You would expect this to mean that 20% of the people earn 50% of the income. Wrong! Census figures are tracked by household. There are many more working people in the top quintile than in the lowest: 70 million vs. 40 million. The people in the highest quintile have more education, and they labor 1/3 more hours than those in the poorest quintile, many of whom are part-time workers.¹³

What does it all mean? Well, for starters, it isn’t a mystery; most people realize that obtaining an education and working more hours are essential considerations for gaining financial wealth. But more than that, what does financial inequality mean? Would it be better if there were a smaller financial spread between the lowest and the highest quintile? If so, why? If one considers it unfair that individuals in the upper quintile earn, say, on average 7 times the average earnings of those in the lowest quintile, what can be said if those in the highest decile earned, say, 20 times more than those in the lowest decile? Or,

⁹ Ernst Fehr & Simon Gächter, *Cooperation and Punishment in Public Goods Experiments*, American Economic Review, Vol. 90, No. 4 (Sep., 2000), pp. 980-994.

¹⁰ A. Sakoff, *The Private Sector in Soviet Agriculture*, Monthly Bulletin of Agricultural Economics, FAO, Rome. 1962.

¹¹ J. Becker, *Hungry Ghosts: Mao’s Secret Famine*. New York Free Press: 1997.

¹² Julian Simon, *The State of Humanity*, Blackwell Publishers:1995.

¹³ Robert Rector and Rea Hederman, Jr., *Two Americas: One Rich, One Poor? Understanding Income Inequality in the United States*, Heritage Foundation (www.Heritage.org).

if that's not "bad" enough, how about if those in the highest 1% earned 100 times more than those in the lowest 1%?

Those who claim that the earnings gap is "worsening" imply by the very use of that word that something is wrong and needs correction. John Kenneth Galbraith called this wide gap a human crime. Those making this claim imply from their statements that if the rich were less rich, the poor would be less poor. That is a fallacy. Such fallacies make good news fodder and are used to lobby for more so-called welfare programs and higher tax rates on the rich. Earning wealth is neither a zero-sum nor a negative-sum game. If Joe earns 1 X and Tom earns 10 X's, what can Joe do to get 2 X's? Does Joe have to take an X from Tom or from someone else? Of course not. It depends on what Joe does. He can gain 20 X's without lowering Tom's X's – or anyone else's. It doesn't matter if others gain X's. They do not prevent Joe from gaining X's too.

To illustrate how meaningless earning gaps are, let's exam a few scenarios: Previously, Joe earned 5 X's and Tom earned 20 X's, i.e., a gap of 15 X's.

- A. Now Joe earns 10 X's and Tom earns 50 X's (gap increases to 40 X's).
- B. Now Joe earns 2 X's and Tom earns 6 X's (gap decreases to 4 X's).
- C. Now Joe earns 3 X's and Tom earns 3 X's (gap decreases to zero).
- D. Now Joe earns 3 X's and Tom earns 30 X's (gap increases to 27 X's).

Let's see if matters are worse or better for Joe, Tom and society (all else being equal) by the changes in earning gaps for each of these scenarios:

- A. Better for Joe, better for Tom and better for society.
- B. Worse for Joe, worse for Tom and worse for society.
- C. Worse for Joe, worse for Tom and worse for society.
- D. Worse for Joe, better for Tom and better for society.

Matters are worse for Joe if his X's decrease, and better for him when his X's increase, irrespective of how many more or fewer X's Tom earns. The words "worsening" and "improving" are not applicable to earning gaps between different people. Such words apply to the current earnings of a person or entity compared to that of a previous period.

SMALL GROUP/LARGE GROUP

A common economic error when assessing the effect of a social event or proposed action is the failure to account for all effects – current and future, as well as the obvious and the not so obvious. In a small setting of people, it is easier to envision all the effects, thereby giving a proposal a more accurate evaluation. Reasoning and common sense (intuition) can be valuable tools when predicting the outcome of a proposed policy or event within a small group. However, such tools become less reliable when trying to assess outcomes in a large group. When directly interacting with others in small groups, our instincts, for the most part, tell us without much deliberation that we can achieve our goals with less conflict and less effort when the means to those goals comport with the "golden rule." In a family, neighborhood, company, business relationship or small group most of us will adopt such a concept, while, at the same time, we often throw the concept to the wind when it comes to a large political group. Virtue and cooperation are instinctual codes of conduct

that evolved because they provided a superior mechanism for survival and reproduction than that of conflict and taking.¹⁴ Since our hunter-gatherer ancestors lived in small groups of 50 or so, our inherited common sense instincts are not as keen when large groups are involved. An act that one would consider reprehensible and nonsensical if conducted in a small group may become quite an acceptable behavior in a large setting.

EQUALIZING CONSEQUENCES

Nature's regularities form the basis upon which we make judgments. We infer from experience that there are causal relationships from which we presuppose an outcome to be pursued or avoided by our action.¹⁵ We learn that actions and inactions have consequences, and we prefer some consequences to others. Good judgments result in favorable consequences, while poor judgments result in unfavorable ones.

To make one person responsible for another's poor judgment is conducive to making haphazard judgments, since critical consideration of one's own actions becomes less consequential to oneself. Without the state trying to equalize consequences, people take greater care in the judgments they make relative to their acts and the perceived consequences. Self-reliance is a better tool than state-reliance, because it promotes a greater perception of the value of prudence. Individual liberty does not guarantee the greatest social prosperity; but it gravitates in that direction, by way of a natural feedback system, which benefits us when we make "right" decisions, and penalizes us when we make "wrong" ones.

WEALTH BEGETS WEALTH

Those who have earned wealth by producing goods and services that others volitionally choose to purchase have freed the multitudes from the miseries that nature may have otherwise bestowed upon them. One who produces and sells a million widgets to a million different people at a one-dollar profit per widget becomes a millionaire. But each of the million people has gained in the purchase of a widget some amount greater than its cost. Why? Well, if it were *not* greater, the widget would not have been purchased. That amount of gain is individually subjective, but if each purchaser considers the added benefit to be at least one dollar, all the purchasers, as a group, would have gained at least a million dollars in wealth. To become wealthy by producing goods and services that are purchased volitionally benefits the purchaser (who is also a producer and seller in another exchange). To his mind, he is better off than he would have been otherwise; thus, he is a beneficiary.

The statist, who stands between the producer and the purchaser and proclaims an injustice, will diminish the production from both, decrease the general welfare, weaken self-reliance, and foster animosity. He'll even impose a charge for his interference! Coercive intervention can only decrease the total benefits gained by a buyer and a seller in a volitional exchange.

¹⁴ Matt Ridley, *The Origins of Virtue: Human Instincts and the Evolution of Cooperation*, New York: Viking Penguin, 1996. Also see, Robert Wright, *The Moral Animal: Why we are the way we are*. Vintage Books, division of Random House, 1994.

¹⁵ Hans-Hermann Hoppe, *Economic Science and the Austrian Method*, Ludwig von Mises Institute: 1995.

One may claim that the state is needed to prevent fraud between a seller and an unwitting purchaser. There is no greater prevention of fraud than self-reliance. Reputation is paramount in business, and while scoundrels exist, they find more difficulty in free markets, where reputable entrepreneurs help expose them, and where self-reliance makes one leery of someone new on the block.

MONEY

Today, governments monopolize money, but this was not always the case. Money began to be used to facilitate the trading of goods when the division of labor replaced self-sufficiency, and bartering became impractical with an increasing variety of goods and services available. Various forms of money evolved as a common denominator that a trader accepted in lieu of accepting someone else's goods or services in a direct trade.

To illustrate, let's say John produces eggs and Bob produces wheat. If John wants wheat from Bob, but Bob doesn't want John's eggs, John could give Bob a facilitator, for instance, nails, for his wheat. Bob, in turn, could use the nails in trade for milk, when the dairyman doesn't want his wheat. The dairyman could then trade the nails for eggs from John, and we are back to where we began, at least nail-wise (really, money-wise).

Whenever a volitional exchange takes place, each party gains more in what he receives than in what he gives up. In other words, when Bob accepts nails for his wheat, he is valuing that quantity of nails greater than he is valuing the quantity of wheat that he gave to John. Conversely, John places greater value in the quantity of wheat than he does in the quantity of nails. Because values are subjective, wealth at the time of a volitional exchange is always a positive for each party and therefore a positive-sum game. To their own minds, both John and Bob are wealthier at the time of the exchange than they were before.

In a similar scenario, another way to facilitate trading would be for John to give Bob an IOU for a specific quantity of the eggs, instead of nails. As before, Bob doesn't want eggs, but he accepts John's IOU in exchange for wheat because he knows that the quantity of eggs it represents has value to others. Bob uses John's IOU in exchange for milk from the dairyman. The IOU can continue to be used in further exchanges until someone simply redeems the IOU and gets eggs from John, at which time the IOU is voided.

The willingness to accept John's IOU depends on John's reputation. The more reputable he is, the greater its acceptance. If John defaults on his IOU, his reputation will suffer, and, as a result, he may be relegated to trading his eggs only by direct barter with someone who can use the eggs. Let's say John honors his IOU's 100% of the time, such that everyone who requests redemption gets their full quantity of eggs. John's IOU's become so popular that only a few ever cash them in for actual eggs. When this happens, John may be tempted to write more IOU's than the quantity of eggs he is capable of producing to meet all outstanding IOU's. John tries doing this, and finds that he can write about four times as many IOU's than he possesses in eggs at any given time. It seems to work fine, since everyone who wants to redeem their IOU's gets eggs for the IOU's they cash in. John is living a more prosperous lifestyle – actually a lifestyle about four times better than before, since he has garnered four times the goods from others than he was able to get

before. The rest of the community, of course, is not enjoying life to any greater degree than the actual goods they are producing and consuming. As John's IOU's become ever more popular as a medium of exchange, fewer people find the need to redeem them. So John begins to increase the ratio of IOU's to his production of eggs until there are virtually hundreds of IOU's to every egg. We can see that John has a great life of splendor, with little effort and little contribution to the community. The community is not wealthier with all those unredeemed IOU's, since no one is enjoying the eating of the eggs represented by them. Even when the members of the community realize that John can't possibly honor all his IOU's, they continue accepting them in trade for their goods, believing and hoping the next person in line will accept them as well. Eventually, John drops the use of the word "eggs" on his IOU's to prevent even the few who may want to redeem them from doing so, or to thwart a possible "egg run." Like other goods, as the number of IOU's in the community increases, their exchange value decreases. Whereas at one time an IOU for a dozen eggs could get you a gallon of milk, now it may only get you a fraction of a cup.

In order for John to continue to live in the style to which he has become accustomed, he hires others to help write the IOU's, since he now needs an ever increasing number just to get the same quantity of goods he was getting earlier. He and his helpers are living the life of Riley at the behest of those working to produce the goods that their bogus IOU's have acquired. Well, by now you are probably thinking, "John sounds a lot like government." Not quite.

Only if John were to forcibly prevent others in the community from competing with him, and forcibly requiring everyone in the community to accept his IOU's in payment of all debts, would he then be equivalent to government. In a free market, money such as John's IOU's would have found more and more competition long before it would have reached the point I described. As confidence in the issuer of an IOU fades, competitors seize upon the opportunity. Each new competitor would try to reassure those who accept their IOU's that they are not like John's IOU's, and that theirs are backed by something real, something totally redeemable.

No government today issues money that is redeemable for anything of value. U.S. dollars were at one time IOU's that were redeemable in gold, but when more and more of them were printed with no commensurate addition to the supply of gold, the government was compelled to prevent redemption. In 1933, the government by edict simply made the ownership of gold by U.S. citizens illegal. Then in 1971, the government had to renege on the redemption in gold of dollars held by foreign entities as well. Since then, there has been nothing redeemable with a U.S. dollar; it is deemed money by edict, and must be accepted to satisfy any debt.

As we've seen, the one who issues an IOU without the ability to meet full redemption simply acquires goods and services in the marketplace at the expense of those hard at work producing them. In the above example, John, the issuer of un-backed IOU's, is a free rider, getting a benefit without a cost. Governments are no different; their issuance of fiat money is simply another form of takings, along with taxes and tariffs. As governments issue greater quantities of fiat money, its unit value continually falls, harming the elderly

who have saved money to retire the most. The money they have worked to save during their entire life is now worth so little that they find themselves unable to retire. Because of this, inflation (increased printing of fiat currency) is considered to be the most insidious form of taxation. Absent inflation of currency, goods in general would fall in price due to technology and competition, thereby making retirement more realizable.

MONEY ISN'T PROSPERITY

Money does not create prosperity. Prosperity is gained by producing goods and services that people value. If the U.S. government were to print and hand out one million dollars to every household in this country (approximately \$100 trillion), would we all be better off and live a better life? If the answer is “yes,” we could do even better by making it one billion per household. We sense something is wrong with that answer, but what is it?

Let's examine that supposition by viewing a society of just five people. In this society, there is production, trading and consumption. For simplicity's sake (although quite unrealistic), let's say each member produces 20 units of a different good during a given period, and each member's unit of goods has a similar subjective value to each of the other members. As it stands, the society's prosperity (wealth) is 100 (5 x 20) units of goods. Let's say we give each member 1,000 dollars, which they use to facilitate trading, when for whatever reason, one can't exchange one's goods in direct barter for another's. How each would use the dollars as a medium for a given exchange, or how each dollar would be valued relative to a given quantity of goods, can't be predicted. However, irrespective of the introduction of money, the total quantity of the community's wealth is still 100 units of goods, with each member contributing 20 units to that overall level of wealth. Even if we were to give each member a million dollars, there would still only be 100 units produced, *i.e.*, no increase in prosperity. Where, in the first example, each unit of good may equate to, say, \$50; in the second example, each unit of good may equate to \$50,000.

During Germany's hyperinflation of the 1920s, a millionaire was a pauper. Printing presses were working at full capacity, 24 hours a day. The famous caricature of a person hauling his marks in a wheelbarrow exemplified the worthlessness of the money. In 1914 the German mark was backed by gold, and had a value equal to one quarter of a U.S. dollar. By 1923 the mark's value was one trillionth that of a U.S. dollar. Because governments are tempted to simply print fiat money at their whim to acquire goods without work, some advocate that money should be printed only when backed by gold or something else of real value, in order to prevent such skullduggery. But even if a community were to adopt gold as its money, one's worth is still only what he produces. If earth were to be hit (very softly) by a huge meteor of pure gold, and we each got an equal share, putting artistic and electronic benefits aside, we would not be better off. With gold used as money, it may now take a kilo of it to buy a cake, but it won't cause an increase in the number of cakes. It simply may mean that instead of getting 2,000 cakes for a kilo pre-meteor, it will now get you only one.

REDISTRIBUTION OF EARNINGS AND WEALTH

Redistribution of wealth can only be accomplished non-volitionally, *i.e.*, by force. Only forms of wealth (assets), not wealth itself (one's well-being), are distributed or

redistributed volitionally. When a thief takes \$100 from his victim, he gains wealth while his victim loses wealth. As such, \$100 in wealth has been redistributed from one person to another. In a volitional act in which, say, one gives a tailor \$100 for a suit, the \$100 is redistributed, but wealth is not, since each person is wealthier than he was before the exchange. In other words, only the assets of \$100 and the suit, have been transferred between the actors, but not their wealth. Even when one gifts \$100, he values the gift less than he values the mental or expected physical benefits resulting from the act; thus, he has gained wealth, not lost it.

When wealth is measured by the market value of one's assets, there can be great disparity between one person's wealth and another's. However, when the measurement is based on their relative utilization or consumption of raw materials, there is little disparity between them. To illustrate, let's say that someone has one million dollars. The money itself provides no direct benefit to its holder until it can be exchanged for something having utility. In other words, if it can't be exchanged for something valued, it is useless, and therefore worthless. Whether you hold one dollar or one million makes no difference in wealth; the so-called millionaire and the pauper are equally poor. Only if one can use those dollars in exchange for something of utility do they become valuable. The million dollars held by a millionaire can be (1) spent (exchanged), (2) invested, and/or (3) given away. The portion invested or given away becomes someone else's dollars to spend, invest, or give away. Placing dollars in a bank becomes a loan of those dollars, via the banker, to someone else to spend, invest, or give away. The only thing a millionaire can do with his money to directly benefit his life is to spend it on something having utility.

Let's trace where his million dollars can go. When he has a house built, every item in the building of that house – concrete, wood, metal, glass, etc. – came from raw materials that had zero value until someone gave them utility. The metal in pipes came from iron ore that had been worthless until someone dug it out of the earth, and another person refined it, another machined it into pipes, another delivered it, and another installed it. This is true of every item – be it wood from a tree in the forest that becomes a frame, a floor, and a roof, or be it sand from a beach that becomes glass in a window and a mirror. All these items in their raw, natural state are as worthless to a pauper as to a millionaire. The value of the raw materials is equal to all, irrespective of the size of the house. All that stands between a big house and a tiny one is the number of people who are compensated for infusing utility into those raw materials. Like valueless raw materials that are used to build a house, consider the valueless musical symbols that go into the creation of a concert. The dollars spent to experience the joy of music is distributed to a composer who arranges worthless, nonmaterial symbols in a unique sequence, and to the musicians who give those symbols utility by producing pleasurable sounds.

The portion of the millionaire's million that is not spent but invested, say, in a bank savings account, will go to those who purchase houses and cars and who, in turn, redistribute those dollars to those who will create utility in otherwise worthless materials. From the moment of receipt, the totality of the money that the millionaire earned is transferred and distributed to others – every last cent, except the few he may be carrying in his pocket.

The proposition that the state should take control of a large share of the millionaire's earnings by way of taxes, means that the state, instead of the one who earned it, will now determine its distribution. In this case, the distribution is made irrespective of a recipient's productivity. In fact, the first in line for such distribution by the state are those who least deserve it – the ones who administer the takings. In short, when earnings are redistributed volitionally it creates a positive-sum wealth game, whereas when done by the state the results are always a negative-sum wealth game. Of these two means to redistribute earnings, which one appears fairer, which one will lead to greater prosperity for more people and which one is more peaceful? Which means would you choose for the betterment of your life? If you were behind John Rawls' "veil of ignorance,"¹⁶ which would you choose?

EQUAL PAY FOR ALL

The proposition that executives earn far too much as was stated that evening is a statement that leaves its proponent in a quandary. Either every individual must earn the exact equivalent amount, or the proponent must be prepared to establish by edict a standard of inequality of earnings for every individual in every job in every business in every country for every moment.

Just to say someone earns too much is meaningless, unless one is prepared to mandate a specific pay scale that establishes a ceiling of one person's income to the income floor of another. If one person earns a million dollars a month and another earns a thousand, is the first earning 1,000 times too much? If so, should we – that is, the state – increase the lower pay? Decrease the higher? By how much? When the so-called fair ratio of earnings between persons of different skills is reached, it must then be forced upon every employer and employee. What is a fair ratio, and should it apply to every kind of business? If a doctor can earn 1,000 times more than a nurse, can a grocer earn a 100 times more than a clerk? This touches on the absurdity of trying to adjust relative wages based upon an outsider's perception of fairness.

On the surface, it may seem that if an executive's earnings were reduced, a company owner could use those savings to increase the earnings of other workers, thereby equalizing the pay scales. Yes he could, but only if such a shift made sense to him. Owners (investors) of companies are interested in maximizing profits. A business owner will reduce all pay, or increase all pay, or equalize all pay, or differentiate all pay, depending on what he thinks will maximize profits. Since he can't simply eliminate salaries, he must discriminate based on his view of the contribution of each employee to his bottom line. While factory owners have the final say in compensation, workers have the *absolute* final say in acceptance.

¹⁶ John Rawls, *A Theory of Justice*, Belknap Press: revised 1999. The veil of ignorance is a thought experiment in which Rawls proposes that the basic structure of a just society is one whose adopted rules are arrived at by the consent (contract) of all its members, who at the time of consent and prior to the application of such rules ("the original position") are unaware (behind a "veil of ignorance") of the natural fortune or social circumstances of the person in whose body and mind they will live while adhering to the application of such rules.

Imagine the productivity if, all of a sudden, by edict, no one in a factory or company were allowed to earn more than another. Common sense tells us that production would fall. If that were not the result, and instead productivity increased, every factory or business owner would have adopted such a policy long ago. No one is in a better position than the factory or business owner to determine the structure of salaries. If one thought he could make the same profit without a single employee, he would go it alone. The reason he hires people is to increase his profits, and in order to hire them, he will try to lure them away from a competing employer by offering them a more profitable or interesting opportunity. And once they're hired, he must continually please them; otherwise he will lose them to the next guy, who will. Employees are too mobile for an employer to be too unreasonable.

THE GREATNESS OF INEQUALITY

When free markets create wealth, regardless of how wealthy one becomes, it means that someone else, as noted above, is better off, too. In a market with new technologies evolving, and even exploding, every few years, one would expect that those on the frontier of those industries would experience extraordinary incomes. That income for many has been astronomic. There are many billionaires today, and many of them have had an unbelievable impact – directly and indirectly – on virtually every life in the world. The benefits they've granted each of us living now, and future generations, can't be measured, but undoubtedly it would add up to many times more than all the billions earned by the richest of the richest. If we see as many breakthroughs in the next 25 years as we've seen in the past 25, we should expect to see a continued increase in the number of billionaires, pushing the highest quintile to even higher levels of wealth.

But those in the lower quintiles will continue to increase their wealth as well, since the upper end can't gain without pulling the other quintiles with it – wealth begets wealth, as discussed earlier. But, as the number of billionaires increases, many will moan about how sad it is, while in reality, the greater the number, the better off we all are. It represents revolutionary ideas that come from exceptional individuals who push technology, create and facilitate markets, invent ways to increase productivity, or entertain us. Some of these superstars will grant us benefits that future generations will enjoy many centuries after their passing. Imagine what we have gained, and what our descendants will continue to gain, from the talent of one exceptional man: Ludwig van Beethoven. How much would he be owed if we were to compensate him in dollars, yen, or pounds, for all the joy he has given us and will continue to give us in the future?¹⁷

PREVENTING INEQUALITY

Tell a prospective lottery player, "If you win, you must share your winnings with everyone equally, including those who didn't buy a ticket." Imagine what he would do. Of course he would just not buy a ticket.

Many view the wealthy person as possessing more than his fair share, while they ignore the risk he took against high odds of failure. Some have taken a risk by going to school

¹⁷ Of course the ability to enjoy Ludwig van Beethoven's work by virtually everyone is due to the sound replication technology that began with Thomas Edison's invention of the gramophone.

and deferring income during a good part of their life. Physicians take a risk, spending nearly 30 years of their life before they can begin to reap the benefits of their investment. And that's if they successfully make it to the end. Most who try don't! We see the Gateses, the Edisons, and the Fords, but never know or hear of the myriad of Joneses and Smiths who tried their hand at grasping the golden ring, and simply became forgotten souls. What gratitude do we pay to the winners who persevered by skill and hard work, and took a chance, and, as a result, have left in their legacy a stream of goods and services that continue to better our lives? For every Hollywood star, there are a thousandfold who have spent their lives in pursuit of stardom. Take away the glory of stardom, and we lose the thousands upon thousands who otherwise would have staked their skill, hard work, and taken their chances to become one of the stars who entertain us. Take away the glory of being rich, and we lose the millions upon millions of entrepreneurs, inventors, and the like, who otherwise would have staked their skill, hard work, and taken their chances to become one of the few moguls of industry to help improve our well-being. And even those who never become the star or the mogul have, along the way, benefited us with the results of their efforts.

If an owner had a factory of just machines, some more productive than others, would he not take special care of the best producers? However, he wouldn't throw a wrench into *any* of them, since the output of the factory is the total of all machines. Like machines, some people are more productive than others. Whether one's greater productivity is due to talent, skill, hard work, or luck, the sum total of all production is the yardstick that measures the prosperity of a society. Since a society's prosperity is based only on the productivity of its members, it would be irrational to impair the productivity of those having greater talent or skill, just as it would be irrational to throw a wrench into the best factory machines.

THE QUEST FOR ECONOMIC EQUALITY

Some claim that, while liberty produces an abundance of wealth, it is inhuman and unjust that some get more than others. They claim free markets cause great injustices by exacerbating the inequities of wealth. They believe that such injustices require the intervention of those with humanitarian sentiments to reallocate wealth in a more equitable way. While egalitarians use a myriad of schemes to equalize wealth, their goal is imaginary, irrespective of their effort. Attempts to equalize wealth will only result in reducing its quantity without affecting its allocation.

According to the Fraser Institute's *Economic Freedom of the World 2005 Annual Report*,¹⁸ regardless of the degree of economic freedom among 128 countries (comprising 93% of the world's population), the inequality of income by quintiles during 1998 – 2002 is about the same in each of these countries. According to the report, countries with greater freedom had higher per capita income than those with lesser freedom. However,

¹⁸ Erik Gartzke, James D. Gwartney, and Robert A. Lawson, *Economic Freedom of the World: 2005 Annual Report*, Fraser Institute (www.FraserInstitute.ca): 2005.

irrespective of the average level of per capita income of a country, the distribution of such income, for ascending quintiles, settles at about 6%, 11%, 15%, 21%, and 47%.¹⁹

So what does this mean? It appears that the income quintile tiers are a natural distribution phenomenon and that the gaps between each level of income will remain pretty much the same, regardless of any attempts to close them.

Of course greater freedom does affect the real income of each quintile. In fact, when countries are grouped into quintiles based on their level of freedom (least free to most free), the average per capita income in those quintiles is about \$2,000, \$5,000, \$6,000, \$14,000 and \$25,000. What this further tells us is that those in the poorest quintile of the freest countries earned substantially more than those in the richest quintile of the least free countries. Those wishing to close the gap between the rich and poor (by restricting individual liberty and transferring wealth) will not change the relative gap, but only cause the reduction of real earnings for everyone, in the process harming the poorest the most. In other words, any attempts to enforce equality will reduce the size of the economic pie, but not the differences in the relative sizes and shapes of the wedges. Regardless of the size of the pie, the poorest 20% of the population will share in about 6.5% of it, while the other quintiles will each share in approximately 11%, 15%, 21% and 47% of the pie, respectively.

In *A Theory of Justice*, John Rawls proclaims that one does not deserve the fruit of his skill and talent, because they are not of his doing; they were “begotten” by fate. But what he misses is the causality: if you take away the fruit, the talent and skill won’t bother to blossom. Besides, if one does not deserve the fruit of his talent, it hardly follows that someone else does. Rawls was wrong in his “difference principle;”²⁰ inequality is neither justified nor unjustified – it is natural. Any attempt to equalize the more well-off and the less well-off would be an injustice to both, but particularly to those who are the least well-off.

HIRING AND FIRING

“It is not fair that companies can terminate their workers in order to increase profits” was one of the statements made that evening.

Why employ someone in the first place? Is it a desire to see someone work and earn a living, or to reduce the unemployment figures for the country? Of course not! As mentioned, investors create companies for selfish reasons.

Companies hire employees to increase their potential for profit. Their primary interest is to maximize the return on their investment. They will hire more employees, or terminate

¹⁹ The index of economic freedom used by the Fraser Institute is based on the degree of personal choice, freedom of voluntary exchange, protection of person and property, and freedom to enter and compete in markets.

²⁰ From Wikipedia: “The first of these two [of Rawls’s] principles is known as the **liberty principle**, while the second half of the second, reflecting the idea that inequality is only justified if to the advantage of those who are less well-off, is known as the **difference principle**.”

them, when they believe that doing so will improve their return on investment. Since revenue will vary as market demand for their products varies, an investor must be able to vary his expenses as well. If one were prohibited from reducing the number of employees to lower expenses, one should be prohibited from reducing every other expense, too. Why's that? Well, every expense is someone else's revenue, and if one cuts expenses, he jeopardizes the job of someone else. If one stops having his windows washed as a means to reduce expenses, he would be firing that window washer. If he decides not to have the annual Christmas party, he would be firing those who would have catered the affair.

If an investor is prevented from firing employees to increase profits or reduce losses, he won't hire them in the first place. In essence, if you can't fire, you don't hire. So the statement made that evening that no company should be allowed to fire workers simply to improve profits is proposing, in effect, that they shouldn't be allowed to hire them to make a profit either.

JOBS AND PROSPERITY

Jobs themselves don't necessarily create prosperity; prosperity is created by the production of goods and services that people value. Make-work jobs that don't generate goods or services valued by others do not generate prosperity.

Let's say a house in the community is damaged by fire. The local carpenter is not saddened, since this will give him an opportunity to earn a handsome sum. Of course, what the carpenter earns, the homeowner loses. Well, one may say, "It is a zero-sum game money wise, but the carpenter has a job and it is his working that is a net positive for the community." However, the unseen part of the picture is *what* the carpenter would have been doing if he were not restoring the house.²¹ The community is no better off upon restoring the house than it was before the destruction. Thus, the community has not gained prosperity.²² If the carpenter had instead been building a new house, the community would have gained prosperity by gaining a new house.

If jobs and working are the ultimate good for the community, we could propose burning all the houses in order to keep all members of the community busy working. We are struck by the absurdity of such a notion because common sense tells us so. We envision mass displacement of people in the community who will now have to divert their time and energy from what they were doing to simply restoring the community to where it was before the mass destruction. However, once the restoration begins, some may conclude

²¹ One may say, it's well and good that the carpenter would be doing something else, but what if he was idle at the time of the damage to the house. If a given vocation is filled with idle time, it means that the services being offered have a lower preference by consumers than the quantity available. In a community, vocations are chosen that provide services where consumer preferences have eliminated idle time, while those vocations experiencing idle time are avoided. This free market feedback system will lead to a higher overall prosperity of the community, because productivity will progress in the direction of greater preferences that reflect the subjective values of individual consumers. Therefore, if idle time were filled with make-work projects, it would attract those to that occupation, rather than to an occupation that offered services consumers prefer.

²² When the house is damaged, the restoration does improve the community from that point in time, but it does not improve the community from the point of time prior to the damage.

that all is not so bad – everybody is working and earning money. As in wartime, we sense prosperity because we are all hard at work producing tanks, ships and a myriad of other war-related materials, but lose sight of the cars, yachts and the countless other useful goods that don't get produced and don't get enjoyed. We lose all the unseen things that would have been produced by those who are now marching, fighting and laboring for a cause.

DIVISION OF LABOR

Self-sufficiency for the most part has been replaced by the division of labor. In self-sufficiency one's consumption is limited to only that which he produces. As such, consumption is limited primarily to the essential for survival, such as food and shelter. It is quite obvious that in self-sufficiency one's prosperity is simply the sum of his personal production. In a division of labor one limits his production to specific goods and services and depends on the production of others for the balance of what he desires to consume. In a community where there is division of labor, the difference from self-sufficiency is that one person's production is exchanged for that of another's. Thus, irrespective of the form of labor, that which one produces remains the determinant of one's prosperity, and the sum of each person's prosperity determines the prosperity of the community.

The division of labor allows each person to direct his effort to the production of that for which he is better suited, thereby increasing his potential prosperity per unit of effort. It doesn't matter if one can produce everything better than another person, only that he can produce certain things better than he can produce other things. Bill Gates may be able to build computers and also mow his lawn better than his gardener can, but both are better off if he just builds the computers and leaves the lawn mowing to the gardener. Thus, with a division of labor, the prosperity of the community is enhanced by enhancing each person's ability to increase his own prosperity.

LIMITED JOBS AND RESOURCES

A common belief is that there are only so many jobs in the world, and when one person gets one, another must lose his. Some believe there are only so many resources in the world and whatever one person consumes there is that much less for someone else

First to the idea that when one gets a job, another must lose his. If that were so, our country's labor force would still be the size it was when the pilgrims landed. Those who work and produce also consume. If each person were self-sufficient, i.e., consuming only that which he produces, the idea of a limited number of jobs or taking away a job from another would make no sense. Why should the idea make sense when one is no longer self-sufficient? As discussed above, the difference between a division of labor and self-sufficiency is that one person's production is exchanged for that of another's.

In 1976, the California civilian labor force was 8 million; today it is 18 million. Where did all those jobs come from, and who lost them? Today we hear complaints about illegal immigrants taking jobs from Americans. Legal or illegal, they are not taking jobs away. This notion is far from new; immigrants from Mexico are just the villains of the day. In years past it has been the Irish, the Poles, the Italians, and the Chinese. Possibly along the lines of the small group-large group disparity in our instinctive abilities to assess economic

events is the fact that immigrants that are known personally are never seen as a negative; it's only the unseen ones.²³ In a small group, we view new entrants to the group as producers and consumers, like everyone else. Most would accept the idea that two persons can produce more benefits for each other than can each person going it alone. There's no known point at which, say, a million people would stop benefiting upon the addition of one more productive person.

Labor unions use the "take away jobs" fallacy when jobs are so narrowly defined that one can do only what his job designation states. A plumber can't remove a wall to repair a pipe, because that would eliminate the job of a carpenter. History is replete with such nonsensical restrictions.

With unionized job restrictions, inefficiency raises the cost of the products, which in turn reduces consumers' preference for those products. This "take away jobs" fallacy has been the root of many riots, killings, and destruction of properties when labor-intensive factories installed labor-saving machines. Yet when factories installed those machines, the demand for their lower-cost products, in most cases, resulted in an increase in the need for workers in those very same industries. Many get upset with companies who take advantage of cheaper labor in poor countries to produce their goods or provide services. But what's the difference if a company in Detroit decides to send its car parts to Arkansas for assembly? There may be relocation of people performing a given type of job, or a change in the type of job for those who stay in Detroit, but it does not cause a reduction in jobs. When a company produces a good at a lower cost, it can in turn compete for preferences by reducing the price of that good to the public. The lower price of such a good frees the purchaser to use the savings to buy something else, which he couldn't have afforded before. That "something else" is now being produced by someone who landed a job that previously didn't exist.

We are intrigued by the recent "wonders" of European work ethics, where everyone is enjoying more leisure time. They are able to devote less time to work. They have mandated shorter workweeks, six or so vacation weeks per year, and numerous holidays. Supposedly this will create more jobs and thereby greater prosperity. As long as everyone has a job, it's best for the economy, irrespective of how much or what one produces, right? This is a fallacy.

When someone is not working, products don't get produced. Also, putting into practice the notion that tenure protects jobs, because employees can't be fired, will generate a climate of mediocrity in work ethics, a reluctance to hire, and an inability to compete in world markets. Those who follow this philosophy will find themselves falling behind those who don't. In France the average workweek (including vacations, etc.) is about 27 hours; in the US the average is 35 hours

Fewer work hours do not create more jobs, as was reasoned by those in France to cure their high unemployment problem. If this logic held up, we might as well mandate a work

²³ Rita James Simon, *Public Opinion and the Immigrant: Mass Media Coverage, 1880-1980*, Lexington Books: 1985.

maximum of one hour per month, and keep everyone really busy planning his or her vacation trips! Enforced shorter workweeks to increase jobs and prosperity are not a new concept. Economists John Maynard Keynes and John Kenneth Galbraith proposed such nonsense some time ago. Imagine if you were a self-sufficient farmer and were told by your ruler that you must spend less time plowing, seeding and harvesting in order to have more to eat, you would most likely want to commit the poor soul to an asylum for the insane.

Enforced shorter workweeks and rigid tenure legislation where instituted, can only reduce the productive potential of a people. It is productivity that improves living conditions, and those who understand its source will outpace those who don't. The ratio of work time to leisure time is a personal preference, and when the state dictates the ratio, those who think otherwise will find ways to get the final word.

Fortunately there are free underground markets where people skirt regulations and produce goods that would otherwise go unmade. Italy is a great example where the underground economy is said to be greater than the legal one and where tax evasion appears to be a national pastime. If everyone were to obey the law to its full intent, Italy, France, and others would be far less prosperous than they are currently. Of course, this is true here in the U.S. as well. With hundreds of thousands of restrictive regulations, entrepreneurs find ways to avoid or simply disobey many, if not most, of them. Violations of regulations carry the risk of being caught and incarcerated; however, the sheer abundance of regulations, coupled with the abundance of violators, reduces the risk associated with the violation of any one them. Most often the ingenuity of the entrepreneur will outpace that of the bureaucrat. Aside from the advantage of smartness, bureaucrats have a 35-hour a week job, while entrepreneurs have a 24-7 life.

Now to the idea that there are just so many resources in the world and whatever one person consumes there is that much less for someone else. If I have a steak dinner here in California, will it take food away from a starving child in Africa? If so, then let's propose that all Americans stop eating for one day. Will it make any difference? Let's further suppose that all the food we would have eaten that day were shipped off to the most famine stricken parts of Africa. What impact will it have? Will it bring them greater prosperity, or will it bring greater famine after the food runs out? Famine is not the result of others consuming too much. Virtually everyone can be sufficiently productive to earn the necessities of life. Imagine if there were no borders or state restrictions on where one was allowed to move, live and work in the world. We would see people in need of food migrating to where people and companies are in need of workers, and people and companies in need of workers moving to or emerging where people are in need of food. Without the dictates of a ruler, how long would it take to see famine, for the most part, disappear in such a free economy? In today's world, famine is a political creation due to policies restricting free human interaction. Foreign aid is not the solution; its use has had

no positive impact (and possibly a negative impact) in breaking the so-called “poverty trap.”²⁴

Some believe that if there were fewer people in the world, everyone would have more to consume and be more prosperous. We hear that people in Africa and Mexico would not be so poor if they had fewer children. The Malthusian fear of population growth, although fallacious, is widely published and acted upon by many governments.²⁵ In Julian Simon’s *Population Matters*, the chapter titled “Why Do We Still Think Babies Cause Poverty” points to a dozen studies showing “that faster population growth is not associated with slower economic growth.”²⁶

Density of populations doesn’t cause poverty either. If that were so, Japan, New York City and Hong Kong would be some of the poorest areas of the world. It isn’t abundant natural resources that create prosperity either, since none of these areas is high on that list. The idea that fewer people means greater prosperity is put to rest by Simon in *Population Matters* when he questions why weren’t our ancestors wealthier than we, when there were just a few thousand of us on the planet? During the past 200 years world population has increased six-fold, while world output increased eighty-fold.²⁷

One of the points I’ve stressed is that, given time, human ingenuity will always outsmart bureaucrats and circumvent state laws when those laws stand in the way of one’s prosperity. An exemplary case of such human ingenuity takes place every day along the border between the United States and Mexico. In spite of heavy border patrols, immigration restrictions and a language barrier, many millions of Mexicans find their way to those desirous of their labor. An underground network of facilitators has evolved to help merge the complimentary needs of Americans and Mexicans. Some argue that we should limit the number of immigrants into the U.S. because we can’t assimilate them all. The very reason they keep coming is proof that they can be assimilated. If no one wanted to hire them, those in search of work would simply stop coming. There is no need for a central planner to determine how many immigrant workers we can assimilate; the marketplace will determine that number with utmost efficiency.

The major hindrances to bringing employers and Mexican workers together are Mexico’s laws that regulate and restrict the operations of foreign owned businesses. If foreign companies were secure and free to exploit Mexican labor without such restrictions, it would not be necessary for many workers to leave their families to come and find work here – employers would accommodate them where they live. If Mexican rulers (not to be excluded from other rulers) wanted to dramatically and easily improve the living

²⁴ James D. Gwartney, Robert A. Lawson, and William Easterly, *Economic Freedom of the World 2006 Annual Report, Chapter 2 – Freedom versus Collectivism in Foreign Aid*, Published by The Fraser Institute (www.fraserinstitute.ca).

²⁵ The “Principle of Population” by Thomas Robert Malthus (1766-1834) was based on the idea that population, if unchecked, increases at a geometric rate (i.e. 2, 4, 8, etc.), whereas the food supply grows at an arithmetic (i.e. 1, 2, 3, 4, etc.).

²⁶ Julian Simon, *Population Matters: People, Resources, Environment, and Immigration*, Transaction Publishers: 1990.

²⁷ David Osterfield, *Overpopulation: The Perennial Myth*, The Freeman, September 1993.

conditions of Mexicans, all that would be necessary is to lift restriction on foreign ownership, drastically reduce taxes and eliminate regulations relative to labor, imports and exports; then stand back and let the market bring prosperity. It does not require any planning; prosperity evolves spontaneously. The only obstacle that stands in the way of such a proposal are those who fear that someone may get rich over such a plan. But the very idea of someone possibly getting rich is what will bring those with that dream to those who want a better life and a way out of poverty.

THEFT DIMINISHES PROSPERITY

There are only two ways to gain wealth: by *producing* it or by *taking it*. When one produces a good, he can either consume it, exchange it for someone else's good, lend it or give it away. In a volitional exchange, the sum of the wealth gained is always positive, since each participant in the exchange values the goods or services received more highly than the goods or services he relinquishes. That is to say, each has prospered by the exchange. Labor is no different. One's willingness to work an hour for X dollars means he values X dollars more than that hour of his labor, while the employer values that hour of labor more than X dollars. If the value of the goods received in trade or the value of one's pay for his labor turns out to be less than expected, the experience will improve one's value judgment when entering into future exchanges of goods and labor.

Wealth gained in a nonvolitional transfer of assets (theft) or the nonvolitional transfer of labor (slavery) can only diminish the potential prosperity of a society.²⁸ With theft, society does not realize the thief's potential productivity. Additionally, during the conflict, a thief's intrusion impedes the productivity of a producer, and as long as the threat of theft persists, some of the producer's energy is diverted to defense measures and away from production. This is why institutionalized theft such as taxation can only diminish wealth. With taxation, the wealth of a society is diminished by all that could otherwise be realized from the real productivity of those now involved in the nonproductive enforcement and collection of taxes. It is further diminished by all that could otherwise be realized from those now acting as professional tax consultants. And further by the amount of taxpayers' productive energy that is now diverted to defensive activity. And, even further diminished by what might have been realized by otherwise productive recipients who are now being subsidized by the takings.

To illustrate, let's return to our community of 5 people, where each member is producing 20 units of goods per time period. Imagine what would happen if one member, let's call him Paul, stops producing. Paul decides simply to take 20% (4 units) of each of the others' production. Now the total group production is 80 units instead of 100, with each member, including Paul, equally enjoying 16 units of wealth. Not quite.

The loss of Paul's production is not the only loss to the community. Additionally, each of the four producing members must now spend time trying to defend against Paul's intrusion. Their time defending is taken from their time producing, resulting in a lesser number of units produced. Now, instead of producing 20 units each, they can find time

²⁸ Slavery is another form of theft. With slavery one is forced to produce that which is then taken; with common theft one is allowed to produce whatever he wishes, which is then taken.

and energy to produce only 15. As a result, the community's prosperity during subsequent periods is down to 60 units, with each member, including Paul, only enjoying 12 units.

The state is often criticized for wasting its takings.²⁹ Takings can't be wasted, since the best use of such plundered funds would be to destroy them. Once the damage is done by the taking, to subsidize another with such takings simply exacerbates the damage. States would do society less harm by burning their takings than by giving them away.

To illustrate, let's examine what happens in our 5-person community in which Paul has become a thief. Before Paul decided to become a thief, the community was producing a total of 100 (5 X 20) units of prosperity. Paul's new lifestyle of thievery has eliminated his 20 units of production, which, when coupled with the diversion of productive energy to defensive energy for the other members, brought the total prosperity of the community down to only 60 (15+15+15+15+0) units. Now, let's say Paul decides to share some of his takings by offering to subsidize the lowest producing members of society (other than himself). Before Paul's "gracious" offer, each of the 4 productive members were producing 15 units of prosperity and enjoying only 12 units since 3 of their units were going to Paul. Now, let's say one member is more industrious and is able increase his production from 15 units to 16 units. Paul, keeping to his welfare promise, gives 1 unit to each of the others 3 members. Common sense tells us that when we can gain wealth with less effort there is a natural tendency to reduce effort. As a result, Paul's welfare offer reduces the prosperity of the community even more. Thus the community's prosperity, instead of being 61 (15+15+15+16+0), falls to, say, 55 (13+13+13+16+0). If Paul had simply destroyed or consumed all his takings, the community would have been better off than by his sharing them with the least productive members.

INHERITANCE

"No one should be allowed to inherit wealth," was another idea that was proposed.

Part and parcel of the incentive to acquire assets is the ability to control their disbursement. Earnings would be meaningless if one could not control their use. As mentioned earlier, one's earnings can be spent (transferred to another), invested (lent to another), or bequeathed (given to another). If the state limits to whom one can give, one will find ways to circumvent the restriction. If the state limits the amount one can bequeath to a person (heir or otherwise), that person will be made a member of a board of directors, a trust beneficiary, or any one of the many creative legal or illegal ways to transfer assets. One could undoubtedly conjure up many ways to circumvent the prohibition, were he to find himself in that situation.

What would one expect if the wealthy were totally prohibited from transferring their assets upon their death, or at any time, to their heirs or to anyone else they choose? We would probably expect exactly what we see now, only more so. With a death tax rate of 50% or so imposed on estates above a specified amount, very little tax is collected, because creative schemes are employed to circumvent collection. According to the IRS, estate tax represents about 1.25% of the tax revenue collected. Plug the loopholes and new ones

²⁹ CAGW, Citizens Against Government Waste: <http://www.cagw.org>.

erupt – that’s the nature of human ingenuity hard at work to defend life and property. If one were forbidden from giving his assets to his heirs, as was proposed, it would be naive to think that such assets would ipso facto end up in the hands of the state.

Even when the state does collect the death tax, though, the only factor that changes is who will control its distribution, and who will become the beneficiary. Who will choose the beneficiary, the earner or the state? Who will become the beneficiary, the earner’s heir or a stranger? When one argues that the heir doesn’t deserve it because he or she didn’t earn it, what can one say about the person to whom the *state* transfers the money? The individual who earned the wealth will be more discriminating than will the state when spending, investing, and giving, because of his greater vested interest.

One rationale stated to support a high estate or death tax is concern about a concentration of wealth and a danger that it may lead to an abuse of power by a wealthy family. The way to abuse power is to prohibit voluntary human interaction, restrict voluntary exchanges of goods and services, take property by force from those who have rightfully earned it, or to force human beings to kill other human beings. *That* is an abuse of power! Those who may be concerned about a *potential* abuse of power by a wealthy family should be gravely concerned about the *actual* daily abuse of such power by the state at unimaginable levels.

FREE RIDERS

“*Rich employers are free riders,*” was another proposition.

This concept rings of Marx’s labor theory of value.³⁰ According to Marx, all of the value of a good derives from the labor that went into producing it. He claims that workers do not get all of the proceeds from a sale due to exploitation of the workers by the rich factory owner. He further claims that factory owners and landowners, having control of the political system, are able to siphon off a portion of the wealth, in the form of profit, which should flow to the workers. This siphoning by the rich is probably what was meant by “free rider.”

In economics, a free rider is one who gains a benefit for which he does not bear the cost. However, it only becomes a problem when such persons can’t be excluded from a benefit without excluding everyone else. This problem would not apply in the case of the factory owner/worker relationship. The factory owner can’t be a free rider, because, if he were considered to be, a worker could simply exclude him, sell his own production, and keep the extra so-called siphoned-off profits if he chose to. Workers are in the best position to decide what, in their minds, is the better arrangement. For example, football players can play the game without a team owner and gain all the ticket revenue for their work; however, those players who do engage a team owner find that their gain is much greater, even though they only get a small share of the revenue.

A worker, by virtue of being an employee, implies that he considers the relationship with his employer better than going it alone. When he decides otherwise, he simply severs the

³⁰ The *labor* theory of value is in opposition to the *subjective* theory of value in which individuals determine the value of a good or service, irrespective of the time and energy (labor) that went into its production.

relationship. In fact, many employers were former employees who did just that. I wonder what Marx would say about a worker who left the factory and started selling his own production, and then employed others to help him build his own factory.

Marx contended that all factory owners and property owners in a capitalist society would conspire to keep their workers at a bare subsistence level. On this point, Marx was wrong, even during his time and where he lived. Workers in London were continually improving their conditions.

USING VIOLENCE TO QUELL PEACEFUL ACTIVITY

Any political proposal that prevents peaceful activity condones acts of violence – coercion, incarceration, or death – upon persons who are minding their own business, interacting with other persons on a volitional and contractual basis. Peaceful activities and associations are being condemned, because a non-participant finds them not to his or her liking.

The proposals made that evening were being offered not to defend against barbarians at the gate, but rather to physically dominate human subjects who are interacting with each other volitionally and peacefully. To wit: the interactions between the peaceful yacht builder and the yachtsman, the peaceful employer and employee, and the peaceful benefactor and beneficiary.

A proponent of a state policy concurrently condones the acts necessary to enforce its compliance, and by doing so, he is, to some extent, responsible for the ultimate consequences of such acts. One can ascribe admirable titles to a policy and heartwarming terms for its purpose, but, irrespective of the rhetoric, any act used to physically force compliance remains inconsistent with human liberty, since it involves a master and a subject. It is inconsistent to despise slavery on the one hand, while condoning mastery on the other.

KARL MARX

What exactly led to the collapse of the Soviet Empire? Was it communism or totalitarianism? Is there a difference?

Marx would not have condoned the tyranny used by those who acted in his name, but to expect that the notion, “From each according to his ability and to each according to his needs,” would not be used to moralize any despotic act is quite naïve for someone who called himself a scientist. Marx was not, in fact, a scientist; he saw, but ignored, the abundance of data available in England that refuted his contentions. While surrounded in England by evidence to the contrary, he wrote:

“In proportion as capital accumulates, the lot of the labourer must grow worse. Accumulation of wealth at one pole is at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation at the opposite pole.”³¹

³¹ Karl Marx, *Das Kapital* 1867.

According to Antony Flew, Marx was again and again confronted with the charge that socialism, or, at any rate, socialism as he understood it, must involve slavery and despotism.

Marx's critique of capitalism is not valid, but that in itself is no crime. Many who read and believed his contentions indoctrinated the masses with his teachings, and that in itself is not a crime either. But when that indoctrination failed to improve conditions as Marx had contended it would, the leaders of the movement resorted to physical force to ram the ideas home. They did so by killing and torturing millions by decree, and starving millions of others by imposing a totalitarian socialist market. Those, I contend, would be considered acts of genocide in anyone's book. Marx may have been appalled to see what happened, but, on the other hand, he may have simply turned his head away and ignored the evidence, as he had when he wrote his critique of capitalism in the first place.

Marx dreamed of a world where labor was a fulfillment of one's need to work, as love is a fulfillment of one's need for sex. He envisioned a world without money, private property, or inequality, where each would live with the greatest fulfillment of life and liberty. Although he ridiculed religion as being the "opiate of the masses," his promises were even more seductive and addictive; they promised paradise, right here on earth. What a wonderful thing to hear when you're a struggling worker: have faith; a Garden of Eden awaits you just around the corner. The indoctrination of the masses by the disciples of Marx was no less intense than those used by the Disciples of Christ. Rituals, repetitious readings, rote declarations, strict allegiance, and a vigorous, proselytizing campaign mark both. Those who failed to see the merits of such teachings were often tortured and killed. Mass extinctions took the form of crusades, witch-hunts, labor camps, or just plain executions of those deemed to be traitors, sinners, heretics, or obstructionists.

Yet, with all my criticism about his so-called science, his utopian promises, his fallacious labor theory of value, and his denial of the labor conditions around him, there is little doubt that Marx wanted the best for humanity. He spent his life living as he believed, and he was his own person. I find him a man of spirit who lived by his convictions. This is true about many do-gooders who try to reform the world. They see conditions of the world they don't like, and they try to improve them, while neither possessing nor seeking a clear grasp of causality and human nature. Armed with fallacious reasoning, they pound the pavement for their cause, and when they discover that their solution only worsens matters, they simply pound harder. Marx was the world's most notorious do-gooder; those who take him to heart keep pounding harder. Many who find the real world not to their liking find comfort in their faith in a Marxist utopian world.

Communism, like religion, can be practiced without the indulgence of everyone. I wonder whether, if Marx were alive today, he would believe as he did then. Maybe he would not scorn capitalism, nor America in particular, for creating a workaholic, money-hungry, and avaricious society that perverts human values, but rather accept its technologically advanced society, where those who see his better life can now choose to live it without the need for others to accommodate him. No longer is there a need for a revolution. Today,

one can earn the necessities for a good life with little effort, and if work, as Marx suggests, is a fulfillment of a human need (as I would agree it is), one can now more easily choose a form of work which he considers a personal fulfillment of that need, without demanding the indulgence of others. Fellow Marxists can form personal communes and avoid money, private property, and inequality. They can live the life of which Marx dreamed. In a free market, they would be able to practice their Marxist convictions to their heart's content, even encouraging others to join them. However, when a Marxist instead *demand*s that everyone must live their lives in the same manner, it is no longer a belief in an ideology and lifestyle, but rather it is a façade to cover up the ruthless acts of a demagogue.

SPONTANEOUS ORDER VS. INTELLIGENT DESIGN

"Yet this government never of itself furthered any enterprise, but by the alacrity with which it got out of its way."

–Henry David Thoreau

"Good order results spontaneously when things are let alone."

–Chuang-tzu (369 - 286 B.C.)

Some advocate that social order can be achieved only by an intelligent designer, while those in opposition contend that social order evolves spontaneously from forces of nature acting behind the scene, which conscious effort cannot design. The existence of complex, living organisms, economic markets and language are examples of spontaneous order that no designer could have achieved. Natural selection was the term used by Charles Darwin to express the guiding force behind the development of increasingly more complex organisms, while Adam Smith used "the invisible hand" as the metaphor to express the guiding force behind the increased wealth in a free society in which each person is acting in his own self-interest.

Nature's regularities appear to follow certain laws of causality that reward or punish each of us, based on the decisions we make and the actions we take. This natural feedback system is the "invisible hand" that leads to complex living structures and highly productive markets.³² The freer the market, the greater the benefit from this natural feedback system.

*"Significantly, the human mind was intensely selected to evolve mechanisms to evaluate its own welfare, and is so equipped by natural selection to compute and represent its own array of preferences in exquisite and often inarticulate detail. The array of n-dimensional rankings that inhabits our motivational systems is too rich to be communicated to others or represented by them, which is one reason displacing value guided decision making to remote institutions systematically damages social welfare."*³³

³² An exhaustive explanation of how a natural feedback system can create biological complexity is made by Richard Dawkins in his masterpiece, *The Blind Watchmaker: Why the Evidence of Evolution Reveals a Universe Without Design*. W. W. Norton: 1986.

³³ Leda Cosmides and John Tooby, *Evolutionary Psychology, Moral Heuristics, and the Law*. To appear in 2006 in: *Heuristics and the Law* Gerd Gigerenzer & Christoph Engel, Editors (Dahlem Workshop Report 94) MIT Press, Cambridge, MA.

Today, six billion human brains are processing information about their outside world, each day triggering thousands of emotions and feelings. These emotions and feelings are the basis upon which individuals engage the world, make decisions and act. Emotions are unique to each of us, and, while they may be expressed, the experience cannot be transferred to another. Groups, countries, companies, and the like do not experience emotions, nor can they make decisions – only individuals are capable of that.

Those who try to engineer human action in a direction contrary to human nature and nature's laws will only be frustrated in their attempt. Forty years and \$5 trillion later, the government's "war on poverty" (à la President Johnson) has not only failed, it has left more poverty in its path and ruined more families than if the government had done nothing.³⁴ The government's "war on drugs" (à la President Nixon) is another example of where social engineering has created a lucrative underground economy fostering more crime and havoc than if the "war" had not begun. The government spends over \$5 billion per month (only the up-front cost) and arrests a drug violator every 20 seconds, on average, equal to over 500,000 during the first four months of 2006. The forces of nature that govern health care are no different from those that govern other markets. With the government engineering our health care, we are on the way to another catastrophe, where the lesson we learn will take its toll on patients in the quality of care – at an enormous cost of human energy. The saddest of all failures is centralized compulsory education, where the very ideas of coercion, theft, social engineering, and state eminence are instilled in children.³⁵ The longer one attends state public schools, the more they lag other students. Between the 1st and 4th grade, home-schooled children are about one grade level ahead of an average state school student. By the 8th grade, the gap increases to 4 grade levels. Adjusted for inflation, the cost per student in state elementary schools is about 8 times greater than it was just 25 years ago and 25 times greater than 100 years ago. The crying shame in all this destruction is that those foisting these programs and policies on us aren't intending to do harm, but, nevertheless, harm is done, since the forces of nature are not disposed to one's intentions.

Social central planners have repeatedly adopted policies that resulted in catastrophic human sacrifices and sufferings, which could have been averted with the simplest of reasoning based on a rudimentary understanding of human nature. History is replete with such disastrous experiments, because those who conduct each new experiment refuse to accept the notion that there may be a common principle of nature behind the cause of each of the preceding disasters. The 30 million deaths from famine in China following the institution of a collective farming policy is so demonstrative that even the most ardent socialist should wonder and reason why. How many more disasters will state leaders have to see before they no longer need to experiment with human lives to conclude that egalitarian policies designed to promote welfare not only don't work, but also can't work?

Problems don't disappear in free markets; they simply are resolved or diminished more efficaciously there than by way of edict and central planning. In free markets, problems

³⁴ Michael Jonofsky, *New York Times*, (9 February 1998).

³⁵ See Murray Rothbard, *Education: Free & Compulsory*, Ludwig von Mises Institute: 1999.

invite entrepreneurs to resolve them, with solutions that evolve heuristically in an unimaginable number of ways.

THE VIABILITY OF THE STATE

What does the future hold for nation-states? Reality will continue to take its toll on central planning and strain the state's ability to control an exploding, complex world market. Innovative entrepreneurs, exploiting communication networks, coupled with human mobility, will play havoc on the potency of nation-states. States with higher takings and market restrictions will see their most productive citizens and capital gravitating to states with more favorable conditions.³⁶ Entrepreneurs subject to lower imposed state expenses will gain a competitive advantage over entrepreneurs where such expenses are higher. Nation states with attractive free rider programs will be forced to rely more and more on fiat currency as their source of funding, since increases in tax rates will only repel those upon whom they rely for their other source of funding. Some states may impose restrictions on their citizens and capital from leaving their jurisdictional borders, but like all other restrictions, creative minds will discover ways around them. The day of patriotic state allegiance as a means of keeping one's citizenry in tow is gone.

Eventually, even the most ardent socialists and central planners may lose enthusiasm for pushing their utopian ideas when they realize they only worsen matters for the very ones they intend to help (without ever understanding why). Regulations, by their sheer quantity, will be impossible to enforce, and any stigma associated with non-compliance will gradually disappear.

Will the impact of the role of the democratic state as the current exalted master over the lives of people gradually fade, as has the impact of such roles by monarchs, emperors and popes? Probably. The residual states may become insignificant pests not worthy of being killed? The decline of the state may be so gradual that in centuries to come it will be impossible to mark a date to celebrate the beginning of its decline. In the meantime, because of the results of science, markets and the human spirit, our progress toward a better life will probably continue to occur in spite of the states (provided they don't blow us off the planet). And while that progress takes place, most in today's world will probably continue to attribute it to the state, when, in fact, the state is the greatest hindrance to peace and prosperity.

WEALTH IS MORE THAN MATERIAL THINGS

For many, probably most, wealth is far more than money and material things; love, family, friends, accomplishments, and a passion for some aspect of life will trump all that can be bought with all the billions of the richest billionaires. Some are born with greater prospects for a good life than others, but where we begin is where we must make choices that lead to the best life we can make out of it. Those who spend their lives engaged in

³⁶ On average, at least one millionaire leaves France every day to take up residence in more wealth-friendly nations, according to a government study. France consistently ranks at the top of Forbes magazine's annual Tax Misery Index – a global listing of the most heavily taxed nations. Washington Post, July 16, 2006.

blaming others for a life of misery will generally find nothing but. Daniel Robinson sums up the various good lives from a philosophical view into the *contemplative life* of thought and examination, the *active life* of going out and trying to change the world, the *hedonistic life* of enjoying the pleasures of each day, and the *fatalistic life* of accepting every aspect of life as though it were written.³⁷ Undoubtedly, there are other forms of the good life, but no one can dictate the characteristics of that life for another.

John Rawls prescribes the life we ought to live by first exalting the state as our master, second by establishing the rules of mastery, and third by telling us that we have a duty to oblige his exalted master. He argues that state policies should be arranged (*enforced*) so that they are always advantageous to the least advantaged. When he identifies the least advantaged by their economic status, he demeans the very essence of life. He demeans the lives of “poor” poets, artists, evangelists, and beach bums. He disparages self-accomplishment and becoming oneself. For a poet or a philosopher, money can’t buy self-fulfillment. Often – possibly most often – the financially less advantaged are wealthier than the most financially advantaged. Would a philosopher gain advantage by exchanging his passion for knowledge for the financial holdings of Bill Gates or Shaquille O’Neal? Would John Rawls or Mother Teresa have considered himself or herself less advantaged than Bill Gates? Of course not.

LIBERTY

“Enlightenment is man’s emergence from his self-incurred immaturity... For enlightenment of this kind, all that is needed is freedom. And the freedom in question is the most innocuous form of all: freedom to make public use of one’s reason in all matters.”
–Immanuel Kant

“[T]here is another and greater distinction for which no truly natural or religious reason can be assigned, and that is, the distinction of men into KINGS and SUBJECTS”
–Thomas Paine

I’ve mainly addressed the economic benefits of liberty with an eye towards prosperity and utility. Prosperity is the subjective by-product of liberty. Liberty is an end unto itself, with prosperity as its positive externality. A common thread of nature runs through all humanity, but at the same time, each member holds a uniqueness of life that only he can master. Those who claim to be a better master of a life not theirs forfeit a part of their own life, along with part of the lives of those who – wittingly or unwittingly – accept their claim as true. He, who believes in a master over his life, be it king, queen, prophet, or statesman, has forfeited part of the value of living that life. Often, those who accept a master will demand that others accept that same master. The value of being a libertarian is that liberty cannot fall prey to those who claim superiority and authority over your life.

Some time ago at lunch during a Cato Institute seminar, a young libertarian woman asked sadly, “Why are we losing?”

“Why do *you* think we are losing?” I asked her.

³⁷ Daniel Robinson, *The Great Ideas of Philosophy 2nd edition*, Lecture #50, The Teaching Company: 2004.

“Because the country is getting more socialistic,” she responded.

”What would the country look like if you won, and what would you be doing when that happened?” She didn’t respond.

Liberty is not a battle that requires the conversion of others in order to win. It is won when one accepts the idea that he is the sole master of his life, when his life is subordinate to none and none is subordinate to his. When you believe that, you are liberated. There will always be those who will claim to be your master, but you will know otherwise. To a libertarian, paying tribute to Caesar may make sense, but to believe it is his due does not!

Liberty is not, as Ronald Reagan claimed, a fragile thing. Nor does liberty require eternal vigilance, as claimed by Andrew Jackson. Liberty is a state of mind that does not require the indulgence of others.