Freedom in the Dock

by Howard Baetjer Jr.

"What you're talking about is survival of the fittest, right? Laissez-faire capitalism—where the strong make it and the weak die; is that it?" The accusation bursts forth from a tenth-grader in an American history class. She has been listening intently to my description of the limited government, private property, unhampered market philosophy, and is visibly pained to hear so barbarous a system advocated. Have I no concern for the weak, for those who don't have the skill or training to make it in capitalism?

Respected guest lecturer a moment ago, I have suddenly become a prisoner at the bar, accused of hard-heartedness. The jury is a classroom full of bright fifteen- and sixteen-year-olds. They appear to think my prospects bleak, but they settle back into their chairs to hear the defense.

I begin by pointing out that capitalism, in a limited sense, *is* a system in which the fittest flourish and the least fit disappear—as long as one is talking about business enterprises. A company prospers as long as it provides consumers some good or service they want at a price they will pay. But if its competitors should cut costs and charge less for a similar product, or offer a better product at a good price, that company must adapt or lose customers. It must improve its own product, develop cost savings of its own, or even go into a different product line. But if it doesn't adapt, it goes out of business.

In practice, approximately half of all companies fail within the first five years; the inefficient or outdated continually give way to the newer and better. Many of yesteryear's giants—Kaiser Steel, Sperry & Hutchinson, Cerro, Bendix, Pullman, and others—have vanished, while a few of yesteryear's infants have risen to prominence. Economist Joseph Schumpeter aptly called this process "gales of creative destruction." From this standpoint, the marketplace is as ruthless as nature in the wild.

But this ruthlessness applies only to business enterprises—abstractions without feelings or families. It does not apply to people. When a company fails, its workers and proprietors alike lose their employment . . . for a time. But the only thing actually to disappear is the abstraction we call the company. Its buildings and capital equipment survive, bought by other companies. The people who worked there adjust: they find new jobs or start other companies for whose products there is more demand.

This distinction between companies and people is crucial. In fact, because capitalism permits only the fittest *companies* to flourish, it dramatically assists even the least skilled *people* to prosper.

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As consumers, the least skilled benefit greatly from capitalism. In a market economy, businesses compete to reach the largest possible markets. Thus they strive to produce more goods and services while cutting their costs of production. Among the biggest winners in capitalistic competition are companies that expand their markets by bringing their products within the price range of low-income people. As Schumpeter observed in *Capitalism, Socialism, and Democracy,* "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Not many years ago the chairman of IBM estimated optimistically that before long, at least a hundred companies in America would be able to afford their own computers. He underestimated capitalism: personal computers can now be purchased for under $100, well within the range of even low-income families. Thus capitalism tends steadily to increase the buying power of the less affluent and affluent alike. The "gales of creative destruction" among producers are fair winds bringing vessels richly laden for consumers.

Capitalism Benefits All

Capitalism benefits the disadvantaged and unskilled as wage earners also. The market process lifts wage rates for all levels of ability. As businesses accumulate capital and utilize better machines, the output per worker increases. Hence the value of labor services increases, and employers, competing with one another for these services, must pay higher wages to attract the workers they need. For example, average real monthly earnings for American farm laborers increased six-fold from 1820 to 1950. Similar wage increases have occurred in non-farm employment.

Even for the severely handicapped or infirm, capitalism is the best available economic system. Such unfortunate people necessarily depend on the care of others in any system. But in controlled economies, production is meager; the able-bodied have little to spare for those who cannot work. In capitalism, production is bountiful; there is an ever-increasing surplus with which concerned people can care for those unable to care for themselves. Americans contribute an average of $650 a year to charities. (*U.S. News & World Report,* April 28, 1986) This figure by itself exceeds the total annual per capita income of much of the non-capitalist world. How are people in non-capitalist nations to provide wheelchairs, artificial limbs, books on tape, and Special Olympics for their unfortunate, when they have trouble feeding themselves?

This is not to imply that the United States has or ever did have a consistently capitalist economy. The point is that the relatively large degree of capitalism in America has benefited all—consumers, workers, and the dependent.

In human society the strife-filled "law of the jungle" is approximated in proportion to the amount of government intervention in economic activity. The more political power and privilege are used to seize and dispense the fruits of human labor, the more people must act like the proverbial jungle's beasts, which vie for the limited amounts that nature provides. They struggle among themselves in an appropriation process, grasping for what the government has seized from ever fewer discouraged producers. In this shoving at the public trough, the strong prevail and the weak—the politically powerless—get pushed aside.

In the market, however, people cooperate in a production process. Not limited to nature's bare provision, they transform natural resources and produce an abundance of new goods. Each tries to provide what others want, to exchange for a portion of what others have produced. All contribute; all gain from others' efforts.

I turn to the young woman who asked the question and give my summation: Yes, I'm advocating laissez-faire capitalism. But capitalism is *not* a system in which only the fittest individuals survive; it is a system of growing abundance for all. It is the economic system which best provides for the disadvantaged people we all are concerned about.

She nods ever so slightly, her expression softened. The bell rings and the jury rises. They are deliberating as they leave the classroom. I never get to hear the verdict. □

The Politics of Deficit Spending

by Hans F. Sennholz

During the first 150 years of U.S. history, it was a maxim of political economy that the federal government should balance its budget. The only exception was allowed in wartime when deficits were deemed to be unavoidable. But when the war emergency had passed, the federal government was expected to repay the debt as soon as possible. It was made to run surpluses for 28 consecutive years after the Civil War, and for 11 consecutive years after World War I.

The debacle of the Great Depression together with the sway of Keynesian economics gave rise to a new belief that, in periods of economic decline and stagnation, budgetary deficits could serve to stimulate economic activity. But the deficits should be offset by surpluses in periods of prosperity so that the budget would remain in balance over the business cycle as a whole. As was to be expected, the "contracyclical budget" did not bring about stability and did not remain in balance. Instead, it invited politicians and government officials to engage in wasteful and self-interested expenditures. It not only sanctioned executive and bureaucratic profligacy but also encouraged congressional "pork barreling." In short, it bred huge budgetary deficits not only during recessions but also at other times.

Since the coming of the Great Society even the Keynesian modicum of fiscal discipline has gradually slipped away. Budgets still are viewed as contracyclical tools, but primarily are used as a free-for-all for special interests. In boom and recession the federal government now suffers substantial deficits. In fact, in 24 of the last 25 years it incurred deficits that grew larger nearly every year—exceeding 2.5 per cent of gross national product in all but one of the past ten years and averaging over 5 per cent in the last three years. Fourteen cents of every dollar spent by the federal government now come from lenders rather than taxpayers.

The growing deficits have left a mountain of Federal debt. By the end of World War II, it had soared to some $245 billion and 133 per cent of gross national product. Although a substantial further increase in dollar debt occurred between 1946 and 1971, the ratio of debt to GNP fell sharply and by 1971 had fallen to prewar levels. Most of this was the result of inflation which accelerated the rise of GNP in monetary terms and depreciated the debt. By 1981 the Federal debt exceeded the one trillion dollar mark and amounted to 33.6 per cent of GNP. In 1986 it climbed above the 2 trillion mark and some 50.4 per cent of GNP.[1] At the present rate of deficit spending it will reach 3 trillion dollars and surpass 60 per cent of GNP before the end of the decade.

Ambivalent Voters

The record of deficit spending depresses and frightens most Americans. They worry that they are living on borrowed time that some day must end, or in a dream world that will crash like the stock market in 1929. They sense that something is wrong and that, in the end, the

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