

# PROGRESS | IN A | | FREE | ECONOMY

THE FREE MARKET, operating through the profit motive, has been responsible for the tremendous success of the American economic system. It has ensured the maximum possible effort to introduce innovations and to extend their application as rapidly as possible, with the result that in comparatively short periods of time revolutionary improvements have become commonplace. Because of this and because of the rapid adaptation it assures to all changes in economic conditions, it has rendered every crisis, from natural disasters, to wars, to absurd acts of government, a merely temporary

setback in a steady climb to greater prosperity.

The picture I have painted of a free economy is one of continuous progress and improvement. And so it has been in the United States over the last two hundred years, during most of which time we had a substantially free economy. As the free economy has come to be steadily undermined and the transition to a form of socialism drawn even closer, however, the foundations of economic progress have been eroded. For reasons that should become progressively clearer from now on, a controlled or socialist economy cannot have economic progress.

Dr. Reisman is Associate Professor of Economics at Pepperdine University in Los Angeles.

This article is reprinted by permission from his new book, *The Government Against the Economy*.

I believe that the advocates of socialism know this, or at least that they sense it, and that, as a result,

they have launched a widespread campaign to try to deny the very possibility of continuous economic progress. The nature of their attempt is summed up in the phrase "The Limits to Growth." The motivation of the supporters of that phrase, I believe, is to be able to blame the end of economic progress not on the end of capitalism, but on the fundamental nature of the world.

Therefore, let us consider the basic facts that underlie the possibility of continuous economic progress.

### How Knowledge Spreads

As far as man himself is concerned, the basic fact is that knowledge can be transmitted from generation to generation and that each generation has the ability to add to the total of what it has received. The only limit to this process would be the attainment of omniscience.

Let us consider the physical world in which man lives. Is there a limit to the supply of natural resources on earth?<sup>1</sup>

Yes, there is. But the limit is utterly irrelevant to human action. For practical purposes it is infinite, because the limit is the entire mass of the earth. The entire earth, from the uppermost limits of its atmosphere to its very center, four thousand miles down, consists exclusively of natural resources, of *solidly packed natural resources*. For what is the earth made out of? It is

made exclusively out of chemical elements found in different combinations and in different proportions in different places. For example, the earth's core is composed mainly of iron and nickel—millions of cubic miles of iron and nickel. Aluminum is found practically everywhere. Even the soil of the Sahara desert is comprised of nothing but various compounds of silicon, carbon, oxygen, hydrogen, aluminum, iron, and so on, all of them having who knows what potential uses that science may someday unlock. Nor is there a single element that does not exist in the earth in millions of times larger quantities than has ever been mined.

Now this limit of natural resources has existed from the very first day that man appeared on earth, and in all the millennia since, it has not diminished by so much as a single atom. This is because chemical elements are never destroyed. They simply reappear in different combinations, in different proportions, in different places.

### Resources Rearranged

Apart from what has been lost in a few rockets, the quantity of every chemical element in the world today is the same as it was before the Industrial Revolution. The only difference is that instead of lying dormant, out of man's control, the chemical elements have been moved

about, as never before, in such a way as to improve human life. For instance, some part of the world's iron has been moved from the interior of the earth, where it was useless, to now constitute buildings, bridges, automobiles, and a million and one other things of benefit to human life.

Some part of the world's carbon, oxygen, and hydrogen has been separated from certain compounds and recombined in others, in the process releasing energy to heat and light homes, power automobiles and railroad trains, and in countless other ways serve human life. Nor is the world running out of energy by virtue of the energy released in these ways. For heat from the sun every year provides a constantly renewed supply that is millions of times greater than the energy consumed by man. It follows from these facts that all that has occurred as a result of the Industrial Revolution is that man has *improved his environment*.

### **Production Means Improvement**

It should be realized that by its very nature, production means an improvement in the environment. All that production of any kind fundamentally consists of is the rearrangement of the same chemical elements that nature gives us, but in ways that make them stand in a more useful relationship to man. Consider further examples. To live,

man needs to be able to move his person and his goods from place to place. If an untamed forest stands in his way, such movement is difficult or impossible.

It represents an improvement in the environment, therefore, when man moves the chemical elements that constitute some of the trees of the forest somewhere else, and lays down chemical elements brought from somewhere else to constitute a road. It is an improvement in the environment when man builds bridges, digs canals, opens mines, clears land, constructs houses, or does anything else that represents an improvement in the external, material conditions of his life. All economic activity has as its sole purpose the improvement of the environment: it aims exclusively at the improvement of the external, material conditions of human life.

In trying to restrict man's freedom to improve his living conditions, the misnamed "environmental movement" seeks to force man to live in a less favorable environment.

Now because the world is composed entirely of natural resources and possesses a virtually irreducible and practically infinite supply of energy, the problem of natural resources is simply one of being able to obtain *access* to them, of being able to *obtain command over the resources*, that is, of being in a position to direct them to the service of

human well-being. This is strictly a problem of science, technology, and the productivity of labor. Its solution depends merely on learning how to break down and then put together various chemical compounds in ways that are useful to man, and having the equipment available to do it without requiring an inordinate amount of labor. Human intelligence certainly has the potential for discovering all the knowledge that is required, and in a free, rational society, the incentive of profit virtually guarantees that this knowledge will both be discovered and provided with the necessary equipment to be put to use.

### **An Impressive Record**

The record of the last centuries, certainly, demonstrates that such a society has no problem of a scarcity of accessible natural resources. While the total volume of chemical elements in the world has remained the same, the volume of *useful* elements and compounds *at the disposal of man* has been enormously *increased*. Today, for example, because of improved knowledge and equipment, it is probable that man can more easily extract minerals from a depth of a thousand feet than he could a century ago from a depth of fifty feet. In the same way, he has learned how to use elements and compounds he previously did not know how to use—such as

aluminum and petroleum, which have only been in use for approximately a century, and, more recently, uranium.

There is no reason why, under the continued existence of a free and rational society, the supply of accessible natural resources should not go on growing as rapidly as in the past or even more rapidly. Further advances in mining technology, for example, that would make it possible to mine economically at a depth of, say, ten thousand feet, instead of the present limited depths, would so increase the portion of the earth's mass accessible to man, that all previous supplies of accessible minerals would appear insignificant by comparison. And even at ten thousand feet, man would still, quite literally, just be scratching the surface, because the radius of the earth extends to a depth of four thousand *miles*. In the same way, dramatic advances are possible in the field of energy, such as may occur through the use of atomic energy, hydrogen fusion, solar power, tidal power, or thermal power from the earth's core, or still other processes as yet unknown.

### **Untouched Reserves**

Because the earth is literally nothing but an immense solid ball of useful elements and because man's intelligence and initiative in the last two centuries were relatively free to operate and had the incentive

to operate, it should not be surprising that the supply of accessible minerals today vastly exceeds the supply that man is economically capable of exploiting.

In virtually every case, there are vast *known* deposits of minerals which are not worked, because it is not necessary to work them. Indeed, if they were worked, there would be a relative overproduction of minerals and a relative underproduction of other goods—i.e., a waste of capital and labor. In virtually every case, it is necessary to choose *which* deposits to exploit—namely those which by virtue of their location, amount of digging required, the degree of concentration and purity of the ore, and so forth, can be exploited at the lowest costs.

Today, enormous mineral deposits lie untouched which could be exploited with far less labor per unit of output than was true of the very best deposits exploited perhaps as recently as a generation or two ago—thanks to advances in the state of mining technology and in the quantity and quality of mining equipment available.

As just one example, and a very important one, consider the fact that there are petroleum deposits in shale rock and tar sands in our own Rocky Mountain states and in Canada of a size far exceeding the petroleum deposits of the Arab countries. Until now, these deposits

have not been exploited, because it has been cheaper to obtain petroleum from liquid deposits. Even though oil obtained in these ways would be more expensive than oil obtained in its liquid state, still, it is undoubtedly cheaper—in terms of the labor required to produce it—to obtain oil in these ways today than it was to obtain liquid petroleum a century ago and probably even a generation or two ago.

### Technological Advancement

There is no reason why further advances in mining technology and in the availability of mining equipment would not enable oil obtained in these ways in the future to be less expensive than oil obtained in its liquid state today. Similarly, there are vast untapped known coal fields in the United States containing enough coal to supply present rates of consumption for many centuries.

In some important respects, these coal fields must be considered not merely a substitute, but the full equivalent of petroleum deposits. For it is possible to produce some of the identical products from coal as from oil—for example, gasoline. This too has not been done commercially until now, because it has been cheaper to produce gasoline from petroleum. But there is no reason why, with the further progress of technology and the availability of equipment, gasoline produced from

coal in the future should not be cheaper than gasoline produced from oil today, just as gasoline produced from coal today would undoubtedly be cheaper than was gasoline produced from oil in the past.

"The reader of this book may very well finish it with a radically different understanding of such events as the oil and natural gas crises, chronic power failures, and the decline of rental housing in places like New York City."

—From the introduction by  
William E. Simon

If it were necessary, a free American economy could respond to a loss of foreign supplies by turning to such other sources of oil and gasoline as these, and, in not very much time, both through reducing their costs of production and by developing other, newer sources of fuel, would enjoy lower costs and more abundant supplies of energy than ever before. In a free American economy, it would not matter in the long run if the Arabian peninsula and its oil simply did not exist. As a free economy, we would not need Arab oil. Neither our survival nor our long-run progressive prosperity would depend on it.

The growing threat to the supply of natural resources that people are beginning to complain about is not the result of anything physical—no more than it was the result of anything physical in the days when these terrible words of despair were written:

"You must know that the world has grown old, and does not remain in its former vigour. It bears witness to its own decline. The rainfall and the sun's warmth are both diminishing; the metals are nearly exhausted; the husbandman is failing in the fields, the sailor on the seas, the soldier in the camp, honesty in the market, justice in the courts, concord in friendships, skill in the arts, discipline in morals. This is the sentence passed upon the world, that everything which has a beginning should perish, that things which have reached maturity should grow old, the strong weak, the great small, and that after weakness and shrinkage should come dissolution."<sup>2</sup>

That passage is not a quotation from some contemporary ecologist or conservationist. It was written in the *third century*—ages before the first chunk of coal, drop of oil, ounce of aluminum, or any significant quantity of any mineral whatever had been taken from the earth. Then as now, the problem was not physical, but philosophical and political. Then as now, men were turning

away from reason and toward mysticism. Then as now, they were growing less free and falling ever more under the rule of physical force. That is why they believed, and that is why people in our culture are beginning to believe, that man is helpless before physical nature. There is no helplessness in fact. To men who use reason and are free to act, nature gives more and more. To those who turn away from reason or are not free, it gives less and less. Nothing more is involved.

### **Scarcity Is Inevitable if Socialism Prevails**

There are no significant scarcities of accessible raw materials as yet. But the enemies of reason and capitalism sense the consequences of the social system that they hope to impose, and they project it on to the present. Thus they admonish us to save every little tin can and every scrap of paper. Their world, if it ever comes, will have to live like that. But we, who are capable of producing in abundance—we do not have to regard bits of garbage as priceless treasures.

To us, used tin cans, paper wrappings, and the like, which cost us hardly any labor to produce or to replace, are generally not worth the trouble of saving or reusing. In fact, it is usually wasteful for us to do so: it wastes our labor and our time, which are the only things in life we

should be concerned about not wasting. For if we can produce new tin cans easily, by scooping iron ore out of the earth in ten or twenty-ton loads, it is simply ludicrous to take the trouble to gather up each little tin can and carry it off to some recycling center, because in doing so we spend far more labor than we save.

Nor is it "wasteful" or uneconomic in any way that we use so many tin cans or so many paper wrappings. If we consider how little labor it costs us—in terms of the time it takes us to earn the money we spend for it—to have things brought to us clean and fresh and new, in new containers and new packaging, and what the alternatives are for the spending of that money or the use of that time, it becomes clear that the expenditure is well made. For consider the alternatives: We could have our food and other goods wrapped in old newspapers and put in jars, bags, or boxes that we would have to carry along with us whenever we went shopping, or which we would have to make a special trip to go and fetch whenever we came on something unexpectedly that we wanted to buy.

We could then use the money we saved in that way to buy a handful of other goods. Conceivably, we could use the money we saved to work a few minutes less at our jobs each day, and earn correspondingly

less. But these alternatives would simply be bizarre, because neither a handful of extra goods nor working a few minutes less at our jobs each day would compensate us for the loss of cleanliness, convenience, aesthetic satisfaction and also time saved in shopping that is provided by modern packaging.

Let the ecologists adopt the poverty-stricken life-style of Eastern Europe if they choose. Let them go about like old Russian grandmothers in Moscow, with an ever-present shopping bag and herring jar, if that is what they like. Let them pick through garbage pails while pretending that they live in a spaceship—"spaceship Earth" they call it—rather than in the richest country of the planet earth. But there is absolutely no sane reason why anyone should or needs to live this way, and certainly not in modern America. Above all, let them keep their peculiar values to themselves and not seek to impose them on the rest of us by the enactment of laws. 

#### —FOOTNOTES—

<sup>1</sup>I limit the discussion to the resources available on earth. Actually, advances in space technology are making it clear that this restriction is far too narrow.

<sup>2</sup>The quotation appears in W. T. Jones, *The Medieval Mind*, Volume II of *A History of Western Philosophy*, Second Edition (New York: Harcourt, Brace, and World, 1969), p. 6.

"Every commentator on current affairs who is not a fully trained economist ought to read this book if he wants to talk sense. I know no other place where the crucial issues are explained as clearly and convincingly as in this book."

—F.A. Hayek

# THE GOVERNMENT AGAINST THE ECONOMY

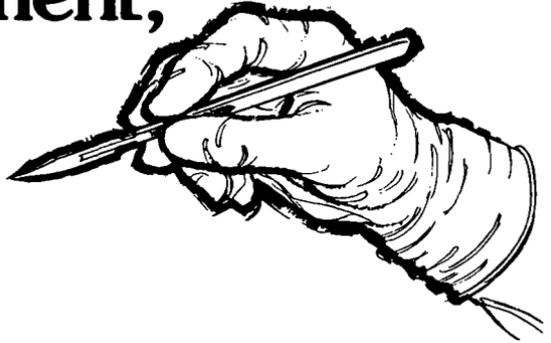
## George Reisman

Introduction by  
William E. Simon

Readers of *The Freeman* may order this \$12.95 book for only **\$11.00** postpaid from:

Dept. P  
Caroline House Publishers, Inc.  
Box 738  
Ottawa, Ill. 61350

# Government, Heal Thyself



A belief is growing among supporters of free market economics: "There is nothing wrong with the American system of medical care that more governmental intervention could not make worse." As we examine governmental intervention in the health care field, we discover it has inflated health care costs to the patient and has failed to deliver a better medical product. If the advocates of more governmental control have their way, a program such as hospital cost containment or a program of nationalized health insurance (socialized medicine) will skyrocket health care costs, increase bureaucratic regulations, turn medical care into a "public utility" to be

dispensed by government, and reduce the quality of health care.

The U.S. government uses the dollars of taxpayers to provide health care to the elderly (Medicare), to aid states via grants to provide aid for the poor (Medicaid), and to subsidize hospital construction (e.g., Hill-Burton). The federal government also operates hospitals to provide care to veterans, merchant seamen, military personnel, and American Indians.<sup>1</sup>

Advocates of government regulation in the health care field maintain that health care is a "unique good" and that the principles of the free market, especially the law of supply and demand, do not apply to it. Since it is "unique," only those wise and all-knowing government bureaucrats are qualified to plan and allocate health resources. These officials demean the free market and

**Dr. Senese, former associate professor of history at Radford College in Virginia, now specializes in health related issues as Senior Research Associate, Republican Study Committee, U.S. House of Representatives.**