

Mixed Economies A No-Man's Land



In a recent address at a local university, a popular liberal explained that America had been forced to turn to a mixed economy because of the “excesses of free enterprise.” These excesses, he explained, were caused by a lack of social conscience, evidenced by high profits.

He quite rightly defined our mixed economy as a combination of welfare statism, Keynesian money policies and rigorous business controls bureaucratically enforced on the remnants and tatters of a market economy—though he didn’t call them remnants and tatters. His description of what is left of the so-called private business community sounded more like a dinosaur with little brains, no conscience and an insatiable appetite behind mass and muscle that will never run out no matter how much it is controlled or starved.

This professor told his audience that our mixed economy is adequately productive and more just and

equitable than the free market was or would be now if we still had it. But he left out a series of facts that the typical university audience would not see, such as the following:

1. The introduction of a mixed economy was a declaration of war against freedom and property. “A mixed economy” is a euphemism for this state of war. It implies—as did this professor—that free enterprise and socialism can exist together peaceably, that by some kind of social compact this lamb can be caged with this lion and we will wake up morning after morning and find both animals purring and bleating happily together. In order to introduce any aspect of socialism the individual’s right to own and control property has to be breached. It must be legal for the government (that is,

Mr. Pearson is recently retired after many years of writing and teaching at Brigham Young University and the Church Education System of the Church of Jesus Christ of Latter-day Saints.

elected or appointed people) to seize private property and use it for some purpose that favors one class or person over another. The government (that is, people with power) has to have this right to seize property for purposes that do not in theory or practice benefit all equally, and has to have the discretionary privilege of determining just which persons will be benefited at the expense of the rest of us.

When this power has been granted, a potential for total socialism exists. That is, once we give the government (that is, people) the power to tax for any purpose but justice and defense, we have unlocked the door to total socialism. It is only a matter of time until, in the discretion we have granted them, *people* in government will choose to go all the way. There really isn't any way we can give these politicians and bureaucrats (we impersonalize them by calling them "government") a fraction of this power to redistribute private property. We gave them all of this power when we thought we gave them some of it. The past several decades are a well-documented history of this fact.

2. People, not economies, are controlled. Any economic policy imposed by law or administered by bureaucrats has all its effect on people. Remove all the people and what would be left? Would it do anything?

Go on producing? Perpetuate itself? Of course not. Plants and sub-human animals would take over and struggle for survival in a world that would know nothing of economies, free or controlled.

The possibility of economic upward mobility was the condition that brought millions of immigrants to America. We cannot have economic upward mobility for long in a mixed economy, and not at all in socialism. The poor need property rights more than anyone else.

We should not pass a law that we would not wish to affect us as we wish it to affect someone else. That is not just a restatement of the Golden Rule. It is a matter of practical application: we could be there and be affected by that wicked and unjust law that we wanted only for reasons of envy in the first place.

We should never endow a political office with powers we would not want a wicked person to exercise; because, sooner or later, that wicked person will be in that office even if only temporarily. Wicked people are more prone to seek office than are good people. And the more power and discretion we put in an office the more actively and vigorously will wicked people seek it.

3. People are mixed, not economies. That is, in what we call a mixed economy, what we have is a mixture of two classes of people—those who

are in the socialist side and those who are in the non-socialist side. And they have different ends and different means of reaching them. These two classes are at war with each other. Sometimes the bureaucrats are at war internally with themselves. While at work, they have to do things that are acts of war against themselves in their private lives. A mixed economy is a schizoid state of affairs that promotes no end of warfare and turmoil in souls and in society. It is a no-man's land. Imagine the torture to a Christian, for example, who tries to keep any significant meaning for the Ten Commandments and the Sermon on The Mount and still pretends to see justice and equity in socialism.

4. Human nature isn't changed by a change of social or economic orders. It can be improved by such things as persuasion and example; but people are not better or worse in a mixed economy or in a free economy except as the opportunity or incentive to sin is increased or decreased. The law is simply a standard that determines what is good or evil for ethical purposes in people of good conscience and for legal purposes in the judgment and punishment of criminals.

If the law is perverted or unjust, it will destroy respect and increase crime. It will do this even if the perversion and injustice are not per-

ceived on a conscious level. The subconscious also can sense perversion and recoil at injustice. It may well be that the violation of conscience that is not dealt with openly does more harm and explains more violence than do problems that are perceived and dealt with rationally. That socialism which is found in a mixed economy is especially offensive to people of fine and noble sensitivities because it is so blatantly unjust to say that, by hiring a person as a government employee, we can authorize and sanctify all sorts of deeds of routine violence to property rights that a person cannot perform in the role of private citizen without indictment as a criminal.

5. In many ways mixed economies increase the incentive and opportunity to commit crimes. In a free society those rich who are selfish can only misuse their own money. In a mixed economy, there is a great incentive for all kinds of criminals to get control of the government so they can use both money and power to achieve evil ends. The more bureaucratic positions available, the greater chance of criminals holding office; and this facilitates the growth of all sorts of bribery. It also opens the door to employment padding, nepotism, misuse of privileges (like franking mail and making long distance calls on WATS lines) and all sorts of graft. Some of this graft is now so much a

way of life that we just live with it.

Many of those “awful, wicked, unconscionable” free enterprisers are now awful, wicked unconscionable bureaucrats. In fact, it may well be that the more incompetent and prone to evil they are, the more likely they will be to gravitate out of the risk, competition and governmental intervention of business and into the security of government. Of course, not all bureaucrats—maybe not even most—are fearful, sneaky, lazy and prone to graft and bribery; but certainly such people are far more at home in government than out in the rigorous world of business. Else why the periodic and extensive purges in Russia and China?

In very recent times the Chinese Communists have declared the presence in their extensive bureaucracy of all the evils listed above, and they have tried to purge them out.¹ But, again, they can only purge people and replace them with people. It is a law of bureaucracy that the most evil men are the best at appearing good. Another bureaucratic law is that power corrupts most people. So, even if we replace bad bureaucrats with good ones, many of the good ones will get bad by and by. Enough will get

bad so that purges improve bureaucracies only temporarily.

6. The free market is not devious about profit. Without profit there is no reason to stay in business. That is an honest, up-front fact. But consider this: the socialist sector in a mixed economy (TVA, public roads, postal system, public schools, and so on) have a substitute for profit: taxes. They tax for all the reasons business seeks profit: large salaries and benefits for management, plant expansion, modernization, research, and the like. And taxes are not controlled by the natural laws of the market place.

7. Capital is the basis of production in all economies. It can be created only by savings. Someone has to cut down on consumption and divert savings to machinery, land and operating capital. Once capital has been created, it can be obtained by borrowing. It also can be obtained by stealing it. In that case, there isn't any overall increase of capital likely to ensue. It is just transferred from one person or segment of society to another. That is why the socialism we have in our mixed economy is such a burden—it steals (gets by taxation) all of its capital from the business sector. Then, to add insult to injury, the socialists accuse business of inefficiency and lack of social conscience for seeking a profit that

¹See, for example, “Corruption, Scandals Prompt Chinese to Clean Up, Reform Party,” by Victoria Graham, *Associated Press Writer, The Salt Lake Tribune*, Sunday, October 11, 1981, p. 12A.

can rebuild its capital. When they occasionally see that their taxing policies have prostrated business, they introduce tax reforms temporarily to help business get back on its feet. Each time the tax laws are changed, they get more confused and complex.

The so-called Third World is full of nations that are experimenting with socialism of various mixtures. They look with envy upon the capital of the American Business community and that of any other country which has had sufficiently free economies to accumulate capital. The United States government quite regularly accommodates that envy by plundering our business community to start or perpetuate these socialist experiments. Conceivably, for short periods, a socialist country might accumulate capital at great sacrifice and hardship to its citizens. But too much of the accumulation of capital in the slave world is being accomplished at the expense of whatever business in the "free world" there is left to tax. In the long run, of course, socialism will not work.

8. Justice and equity are ideals that are never fully achieved. However, they can be approximated in a market economy because the government in that case is not in the business of injustice. In a mixed economy, all that the government does to redistribute wealth is, by de-

finition, injustice; because it is designed to discriminate. In a market economy the government is confined to the task of protection from criminals and foreign aggression. The president is the high sheriff and commander-in-chief. He has no proposals to improve the economy or bring relief to the poor and unfortunate unless that relief is a matter of national or local defense that is clearly constitutional. And the more we attempt to change that state of affairs, the more we introduce injustice and inequity into society. We show an unfortunate misunderstanding of definitions when we equate justice with economic equality.

9. There is reason to doubt that the establishment of a mixed economy was motivated only by misguided concern for the poor and afflicted. This doubt is fed by at least three historical facts. The first of these facts is that the prime-movers—especially those who were intellectuals and labor leaders (such as Thorstein Veblen, John Dewey, Eugene Debs, and the like)—who were most effective in pushing us into a mixed economy were Marxists of some stripe or another, whether or not they were members of a Marxist society. The mixed economy usually was not and is not a goal, but only a signpost on a much longer road.

The second historical fact that casts

a shadow on the motives of those who pushed us into a mixed economy is that the poor have increased as the mixing of the economy has increased. The number who perceive themselves as poor has increased dramatically. This is because the welfare state philosophy feeds envy. The number who are perceived as poor by those who administer state relief has increased dramatically. This is because there is personal advantage and gain for these bureaucrats if their relief programs grow. But those who are objectively poor, in the life and health threatening sense, have increased also. This is because a mixed economy cuts off avenues of upward mobility and tends to throttle private concern for the poor.

The third historical fact is that bureaucracies are run for the good and the perpetuation of the bureaucracies, not for the help of those they ostensibly were set up to serve. Ludwig von Mises and many others have adequately proved this both rationally and empirically. Consider this one fact: if you divide the amount of tax revenue budgeted to the bureaucracies for the care of the poor by the number of poor these bureaucrats say we have, there is no way you can come up with less than \$6,000 per person per year in 1982 dollars. Some studies have put the figure much higher. It is difficult to pinpoint a correct numerator or denominator

because so much public charity is hidden in so many different places—housing, food stamps, medical care, subsidies, student loans, and so on.

The breakdown of the federal budget sent out in March, 1982 by Representative Dan Marriott of Utah shows categories that are mixed in such a way that it is impossible to determine the dollar amounts meant for the poor. Nevertheless, the sums earmarked for a number of agencies and programs that were originally set up to relieve poverty and distress totals at least 577.6 billion dollars. However, an unknown amount of billions in this 577.6 billion is now meant for others than the truly poor and distressed; but nearly all of it is justified to the American taxpayers as absolutely necessary relief from some kind of hardship suffered by somebody.

Just as a practical illustration, suppose you accept 34 million as the number who are so poor as to truly need immediate and continuing aid. Suppose you gave each one—men, women and children—\$6,000 annually. (That would be \$24,000 per year for a family of four. No end of families of six to ten in Utah and, no doubt, elsewhere, are doing very well on that much without public relief other than such indirect programs as FHA home loans. These families also are contributing ten to fifteen per cent of their income to private care of the poor or to other charita-

ble causes.) Now multiply \$6,000 times 34 million and you will get a product of \$204 billion. That is only 35% of the \$577.6 billion we started with. Remember, also, that every state is in the welfare business. Then you will see that \$6,000 per year per person would leave a great deal for necessary administration.

And the truly poor don't get anywhere near \$6,000 per year. Where, then, does the money go? Most of it goes to the care and keeping of the bureaucracy, which, in turn, helps perpetuate in office the kind of people who will keep the budget rolling in to perpetuate and expand the bureaucracies. This is the sort of thing that creates doubt about the sincerity of those who say the poor need a mixed economy to save them from the wicked free enterprisers. One cannot help suspecting that the money is going just exactly where it was meant to go by those who got us into this mess.

10. The rich can get richer while the poor are getting poorer in a socialist economy; because those with the power (the bureaucrats or ruling class) can divert whatever wealth they want to themselves for whatever purposes they choose. In a free market economy, the rich cannot get richer at the expense of the poor. Inevitably they make the poor richer. Everything they do with their wealth creates opportunities for others. The

only way they can prevent this from happening is not doing anything with their wealth—not consuming any of it, not investing any of it, just hoarding it. And who does that? Only the very few who are insane.

There is no legal way for a rich man to cause a poor man to get poorer while enriching himself in a market economy that is protected from criminals and foreign invaders by a government that is limited to defense by constitutional law. True, our original Constitution looked the other way at slavery, to put it charitably. That was a flaw that cost much more blood, both by the whip and by the sword, than was shed to prepare the way for the original document. So we must not forget that blood—and all the blood—that was shed to get us out of the very thing the socialists are working so hard to get us back into—slavery.

11. In a mixed economy, the socialists can blame all failures on the business community—and they do. They do not publish the fact that all the same economic and social problems exist in an even more aggravated state in countries that are nearly all socialist. The professor who inspired this article tacitly agreed that a market economy is successful when he said that there was too much profit in a market economy. Socialist countries never have *that* problem. ⊕

Thomas J. DiLorenzo

Public Policy & The Free Economy

TAXPAYERS in the United States, Great Britain, and several other democratic countries have become increasingly disenchanted with the unfulfilled promises of governments, the burdens of taxation and inflation, and the loss of individual freedom which public sector expansion has generated. New constitutional and statutory restrictions on governmental taxing and spending powers have been imposed in the U.S. and both Ronald Reagan and Margaret Thatcher were elected on platforms which called for a relative reduction in the size and scope of government and the encouragement of free enterprise. But a dangerous scenario is being constructed in the U.S. and the U.K.

Entrenched government bureaucracies along with labor unions and other powerful interest groups have prohibited any significant reductions in government spending, and

Dr. DiLorenzo is Assistant Professor of Economics at George Mason University, Fairfax, Virginia.

the basic government regulatory institutions which have placed such heavy burdens on the private economies of the U.S. and Great Britain remain largely intact. Left-leaning politicians now publicly express a desire for higher inflation and unemployment which they hope will help to restore their political power, and the media routinely reports, incorrectly, that both the Thatcher and Reagan economic platforms have been implemented, and have failed. The danger in this situation lies in the fact that it is customary to hold the chief executive responsible for the health of a nation's economy, regardless of what the causes of current economic problems might be.

The problems of inflation and unemployment, which are primarily caused by past government interventions in the market economy, are being widely sold as the direct result of policies which encourage free enterprise and attempt to restore incentives to work and invest. It is