Bill Anderson

ECONOMIC DEMOCRACY

DEMOCRACY is a hallowed word in our society. Its very name denotes free choice, relief from oppression, self-determination, civil liberties and rights of expression. Indeed, the word, according to theologian Michael Novak, is considered "so favorable that even the least democratic of nations insist upon calling themselves by the name which most condemns them."[1] Yet, at the same time, it is a misused term, one that all too often brings semantic confusion rather than enlightenment to the social agenda. "Economic Democracy" is such a term, a "hook" that gives the promise of liberty in the marketplace while in reality it promotes the opposite: collectivism.[2]

Economic Democracy in the 1980s comes in many forms. There is a well-known political movement concentrated mostly on the West Coast that has received much publicity not only for its doctrines of political economy but also for the celebrity status of many of its leaders and supporters.[3] The term is also used by politicians and public figures not officially associated with the western political movement, but who "favor some sort of plan in which workers have a share in either the management of their industries, or profits, or both."[4] Advocates of Economic Democracy have also been called social democrats.

Whatever the degree of associa-

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tion, one can assume that those beholden to the term Economic Democracy have a common belief about *the economy and how it should be* run: the marketplace, they say, should be taken from the control of private individuals—or "private interests"—and placed in the hands of democratically-elected legislators and officials who will steer it in the direction of the "public interest." Now, the use of "democracy" to promote forms of collectivism is not new. For example, Upton Sinclair, the writer whose works had a vast impact on the Progressive Movement of the early 20th Century, once said:

> Of course, when I talk to anybody important like Henry [Ford] I have only one thought in mind, and that is to make a socialist out of him. So I told him [Ford] what I thought were the responsibilities of the great masters of industry and how industry must ultimately be democratized. It has been my life thesis that autocracy in industry is absolutely incompatible with democracy in politics, and that the two struggle with each other and one or the other will win. I wanted democracy to win, of course.[5]

Sinclair's remarks, along with the dogma of today's followers of Economic Democracy, bring many important questions to mind, the first being: Are they right? Is the free capitalist system in reality a system of autocracy that operates within—and constantly struggles with—the framework of democratic politics? One might also ask: Is collectivism as part of a system of democratic politics the social arrangement that *most allows the common character*istics of democracy—free choice, self-determination, and the like—to operate within an economy?

In answering these questions and in critiquing the movement of Economic Democracy, one cannot just stop with exposing the fallacies of neo-collectivism. It does no good simply to prove an opposing ideology as wrong; one must also demonstrate his own ideas are correct, or at least nearer to the truth. Indeed, the burden upon adherents to the free market is great, for they must show that an economic system which depends upon individual ownership, individual initiative and limited government is compatible with a political system which emphasizes pluralism, public accountability and equality under the law.[6]

Collectivist Fallacies Exposed

Socialism, central planning and other forms of collectivism have been thoroughly unmasked by the world's most able economists from Adam Smith to Ludwig von Mises to Milton Friedman. It is unnecessary to retrace all their devastating arguments against socialism, since the volumes written against this economic heresy explain collectivism's shortcomings far better than can be done in this short essay.

However, it might be valuable to deal with at least one major fallacy of collectivism, while also examining the claim that Economic Democracy, because it operates within a sphere of political free choice, is the logical extension of political freedom into the economy.

As Lawrence Reed has aptly noted, forms of collectivism adhere to numerous economic fallacies.[7] Perhaps the greatest fallacy of collectivists is their assumption of *production for its own sake, that production is somehow more important than consumption.* As Adam Smith once pointed out, the sole end of production is consumption. In other words, people produce in order to consume.

But the dogma of those involved in the Economic Democracy movement (and collectivist movements before them) deals with individuals in society not as consumers or recipients of goods and services, but as *employees,* or, to use Marx's terms, workers or proletariat. What concerns the neo-collectivists is not the quality of goods and services produced, but rather *how* they are made, *where* they are made, and *who* produces them. For example, numerous Economic Democracy lobbies are attempting to convince lawmakers to create laws that make it difficult, if not impossible, for employers to close obsolete, noncompetitive factories.[8] That the products created in such outdated plants are not competitive in the marketplace is of little concern to these people. What matters to them is that employees not lose their jobs because of economic dislocations.

To deal with the inevitable problems of less-expensive, foreign-made goods competing with domestic products made in outdated plants kept open by fiat, the Economic Democracy lobbies also support high protective tariffs to discourage consumers from buying abroad.[9] Of course, the damage done to domestic exporters by the imposition of tariffs would also be a serious problem, although one can most likely assume that industries hurt under those circumstances would receive government subsidies. In the end, consumers—who are also taxpayers and employees—would be deprived of freedom of choice, along with a goodly share of their incomes.

Workers Are Consumers

Other social plans that ultimately divide an economy into employers and employees again miss the fundamental point of production: *the final purpose of production is consumption.* To ignore that fact is fatal, for a productive, competitive economy cannot exist in the framework of a legally static society. When production is held to be more important than consumption, the workers themselves, supposedly protected by restricted legislation, cannot truly enjoy the fruits of their own labor. After all, workers, too, are consumers. One ultimately works so that he or she may eat and possibly enjoy the finer things of life. Few persons work just for the privilege of staying busy.

However, Economic Democracy adherents may argue that a person's life, his very being is tied up in his work. No doubt, that is true in part. Most persons find work that they believe fits their own goals and personalities. But the very quality of their work is dependent upon the innovation and creativity that are stifled when creative, entrepreneurish outlets are blocked by the law.

For example, few steel workers would prefer the hot, dangerous plants of the late 19th century to the modern facilities of today. Likewise, most automobile workers find the modern assembly line far superior to the monotonous, labor-intensive conveyor process that was dominant in the days of the Model T. The improvements in those factories, and, indeed, in most areas of production are due not to following the laws of legislatures but rather to following the laws of supply and demand. Modernization has come because economic progress and innovation have demanded it. Of course, some workers have been temporarily displaced in the process of modernization, but in the long run workers have benefited not only as employees but also as consumers from the very system that many say runs counter to their best interests.

The Assault on Capital

It can well be argued that labor unions have often sought to suppress the introduction of work-saving capital (which often makes the workplace safer) in order to preserve their power—all for the short run, of course. And, indeed, capital is one of the targets on the Economic Democracy "hit list," as collectivists seek to make industrial plants more labor-intensive.[10] The suppression of capital, unfortunately, has perverse effects upon those who are on the bottom rungs of the economic ladder. For one, to suppress capital to keep industries labor-intensive also tends to suppress wages, since capital creates wealth and rising wealth is what brings high wages. Secondly, by keeping wages low and basic industries labor-intensive, such policies retard the growth of the service economy, including meaningful jobs in medical care, education and recreation.[11]

Thus, by assaulting capital, proponents of Economic Democracy actually *lessen* options of employment for workers and retard consumer choice, which is the antithesis of their stated goals. The economic collapses of socialist countries such as Tanzania, China and others that have followed policies of production for its

> So effectively did muckrakers mingle fact and fiction, reporting and righteous indignation, open description with covert prescription that the historian who would disentangle the reality of these years from the myth has a formidable undertaking.
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> There were movements, too, which took up the cudgels for collectivism and helped to spread these ideas. Prominent among these was the Social Gospel movement. Religion, which had long offered the most profound bases for individual liberty, was substantially changed as a result of this movement. Out of moral conviction, out of concern for social and economic conditions, under the influence of the theories of evolution and the sociological findings of the effect of environment upon men, preachers and thinkers formed their thought and started the movement.
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> Instead of being individualistic, this movement was sparked by men who conceived of society as an organism. The life of an individual, they held, is inextricably bound up within this organic unity.
>
> **Clarence B. Carson,** *The Fateful Turn*

own sake are grim reminders that economic laws must be obeyed—or else.

However, as Sinclair argued, is not socialism or Economic Democracy more compatible with political democracy than free market capitalism? After all, Sinclair and present-day Economic Democracy adherents argue, is not business today just an autocracy run by a few men who sit in the boardrooms of New York and Chicago and collaborate with the Congress and the Presidency to control the lives of most individuals?

Such beliefs—and they are legion today—demonstrate a profound misunderstanding not only of capitalism, but of democratic socialism as well. First, and most important, socialism, whether or not it is enforced by democratic means, is not democracy in the marketplace because consumers are ultimately deprived of free choice, or at least their choices are limited. Because socialism operates on the premise that production is more important than consumption, *existing* producers are usually favored over consumers, which means tariffs or import quotas, restrictions for new entries in the marketplace and policies to enhance the power of labor unions.

An excellent example of this can be seen in the Western European steel industries. Last year, those industries combined, including both nationalized and subsidized private firms, lost more than *$2 billion,* which, in essence, means that Europeans were forced to lower their standards of living for the privilege of producing steel.[12] European steel company executives and members of steel-making unions were no doubt pleased by their governments' policies of subsidizing losses and "protection" from steel products of other nations, but the real costs of such government plans were borne by European taxpayers and consumers, who were given no choice in the matter.

While it is true that in a social democracy, voters are free to choose the politicians who then choose the economic planners, once the planners hand down their economic dictums, those policies then become law. Voters, who are also consumers, are not legally free to break those laws. Therefore, the exercise of free choice at the political polls ultimately leads to either a lessening or deprivation of free choice in the marketplace. Of course, consumers, when faced with legislation that impedes upon their free economic choice, often choose to become lawbreakers, which brings underground economic activity that is not just confined to dictatorial socialist states such as Tanzania, the Soviet Union and China, but also to politically-free democratic socialist nations such as Sweden, Italy, France, Great Britain and even the capitalist United States.

The Underground Economy

The implications of the ever-increasing amounts of illegal business activities are sinister, for such underground transactions undermine respect for law, order and the very foundations of trust that undergird a society. And yet, this spurning of the law happens precisely because of the laws that are passed supposedly to make an economy more just, more humane and more productive. In reality, most restrictive economic legislation is not created to improve economic prospects for consumers, but rather to satisfy members of politically-strong special interest groups.[13]

In contrast to the stifling economic controls enacted under Economic Democracy, it can be strongly argued that the free market is the ultimate economic democracy. Upton Sinclair was simply wrong. Henry Ford's automobile company was not an autocracy that controlled the car market, but rather was simply a cog in the wheel of economic freedom.

While Ford may have been an autocrat within his company (he also paid the highest wages in American industry), he could not give orders to the consumers. For a while Ford ruled the automobile roost with his black, inexpensive Model Ts and Model As, but when General Motors began to offer various-colored cars that were given yearly design changes—and could be bought on credit—in contrast to the uniform Fords that could be purchased only with cash, car buyers voted with their money to give GM the lion's share of the market. The process was totally democratic; the results may not have been to Henry Ford's liking, but for all the power Sinclair believed Ford allegedly owned, he could not force consumers to change their minds. Ford had no choice—if he wished to stay in business—but to give prospective car buyers a greater selection from which to choose.

In a free market consumers decide, by choosing from the array of goods and services made available to them, which businesses are to become successful and which are not. This democratic aspect of the market has been clearly driven home by William H. Peterson in his booklet "Who Is the Real Employer?/The True Source of Jobs":

> By your decision to purchase or not, you, in concert with your fellow consumers across the land and, in fact, across the globe, decide what is to be produced and who will produce it. In effect, you decide who will be employed, how much they will be paid, who is to be promoted, who demoted.[14]

Contrary to popular belief, producers do not control the free marketplace. Consumers do; and all of us who live and breathe and eat are consumers. Notes Peterson:

> Businessmen, you see, are agents of you, the consumer. They must do your bidding—or else. They must produce the quality you demand—or else. They must turn out goods and services at the price you are willing to pay—or else.[15]

For example, throughout most of my teenage and adult life I have heard time and again that the American automobile manufacturers are monopolies that have strangled the U.S. economy for most of this century. Indeed, for most of my life domestic car producers have dominated the U.S. market. This phenomenon was not due to coercion on the part of the producers but rather the exercise of free choice on the part of consumers. Now, with the success of Japanese, German and Swedish auto producers evident in our nation today, it seems preposterous at best to suggest that domestic manufacturers have a "stranglehold" anywhere in this country. To paraphrase an oft-repeated statement from a former General Motors executive, what is good for the American consumer may not always be good for GM (to its credit, however, GM has still advocated free trade in the automobile industry in contrast to the positions taken by the other two major U.S. producers and the United Auto Workers).

The Market Is Democratic

If the essence of democracy is free choice, then the free market is truly democracy in action. Indeed, as Novak has aptly pointed out, capitalism is most qualified to be exercised in a politically-democratic society because of its own democratic nature. The free market, he notes, protects individuals' "economic liberties as democracy protects their political liberties."[16]

Socialism, as Novak demonstrates, "fuses the economic system and the political system into one." And in so doing socialism limits the choices of the individual, an action that is not democratic but rather authoritarian. To politicize the delicate, intricate actions of the marketplace in reality subverts the democratic process. Choice is taken from consumers—and ultimately workers—and placed in the hands of government agents.

An excellent case in point is the Lada, the Soviet Union's version of the automobile. The Lada, which is available to Soviet citizens at a few years' wages, has been carefully drawn up by economic planners who supposedly have the "people" in mind. The car, however, has a few flaws. First, and foremost, it is incredibly expensive. Secondly, it is quite noisy. It also breaks down quite easily and buyers are given a hand crank upon purchase because the electric starter inevitably stops working. No doubt Russian consumers would rather place their rubles on a Toyota or a Chevy, but such is not their liberty.

Barriers to Growth

One might argue that because Economic Democracy is laid into place by the permission of voters, the market breakdowns that plague dictatorial socialist nations like the Soviet Union could not happen under Economic Democracy. Yet, since Economic Democracy places producers ahead of consumers in preference, innovation and change that are so necessary to economic growth are less likely to happen. Protection of existing producers and their unions demands the keeping of the status quo. Economic Democracy promises a *static* society, one in which the economic pie does not expand, but rather is divided into politically-popular sections.

There is an ironic note of gloom in the discussion of Economic Democracy that undermines the promise of democracy itself. Writes Novak:

> Governments can govern today only insofar as they meet the exigent material needs of their peoples. Given the

new historical possibilities, the economic policies of governments will be rejected if their peoples cannot glimpse the real probability of a future better than the past. Governments depend upon the productivity of their economic system. More than philosophers and theologians have recognized in the past, the promise of democracy depends upon high levels of economic productivity.[17]

When government intervenes in the marketplace—whether or not it acts in the name of democracy—it does so at the expense of the essence of democracy, that is, free choice. That it intervenes in the name of freedom is deceptive; that the public accepts such intrusion as part of the democratic process is nothing short of tragic.

Yet, in truth, political democracy needs real economic democracy in order to survive. And authentic economic democracy is nothing less than the free market.

—FOOTNOTES—

[1]Michael Novak, "The Economic System: The Evangelical Basis of a Social Market Economy," *The Review of Politics*, Vol. 43 (July, 1981), 369–370.

[2]For a look at misused terms or "hooks" in medicine, read Jane M. Orient, "Collectivism in Medicine: An Exception or a Hook?" in the June, 1982, *Freeman*.

[3]For an in-depth investigative view of the Campaign for Economic Democracy, an organization headed by Tom Hayden and Jane Fonda, read Justin Raimondo "Inside the CED" in the February, 1982, edition of *Reason*.

[4]"An Atari-Age Agenda," *Newsweek* (June 28, 1982), 46.

[5]Upton Sinclair, "How I Reformed Three Great American Families," *The Thirties*, ed. Morton J. Frisch and Martin Diamond (DeKalb, Illinois, 1968), pp. 150–151.

[6]While the essence of democracy is one man, one vote, the present-day promoters of democracy have emphasized solely the collective aspects of it, such as "public good," "public interest," etc.

[7]Lawrence W. Reed, "Seven Fallacies of Economics," *Freeman* (April, 1981), 213–214.

[8]Justin Raimondo, "Inside the CED," *Reason* (February, 1982), 24.

[9]Raimondo, p. 21.

[10]Raimondo, p. 21.

[11]In an ironic twist, Ronald J. Sider, author of the popular *Rich Christians in an Age of Hunger*, suggests in his book that the creating of labor-intensive industries instead of capital-intensive ones will actually *create* more jobs in the service sector, a view also promoted by the late E. F. Schumacher in his *Small is Beautiful*. The reason for their beliefs, in my opinion, is that both men saw work-saving capital as a device that put people out of work, thereby causing unemployment and poverty. Neither recognized that capital creates wealth, and the more wealth that is created, the more employment possibilities exist.

[12]We continue to marvel at the French who manage to lower their real standard of living by creating such technological wonders as the Concorde SST and the bullet trains. French taxpayers ultimately foot the bill for such devices.

[13]One may argue that price controls have the consumer in mind, but, for the most part, price control legislation is written so that producers charge on a cost-plus basis, thereby allowing for profit margins. The price-control legislation also, for the most part, restricts entry into the marketplace by new producers.

[14]William H. Peterson, *Who Is the Real Employer?* (Washington, D.C., 1976), p. 10.

[15]*Ibid.*

[16]Novak, pp. 377–378.

[17]Novak, p. 368.

Steve H. Hanke

The State Wades In

MANAGEMENT of water resources by the government can often encumber their wise development and use. To illustrate this problem, I offer a case study about the life and death of a private water company.

A small private water company was created in 1936. Its purpose was to supply, through a central system, potable water for 300 connections in a stable, rural community.

To protect the public interest, the state regulated the company through its Public Service Commission. The rates charged by the company required the Commission's approval. As a result of the Commission's decisions, the company's water rates were less than the real cost of supplying water.

These artificially low prices resulted in two problems. First, customers were not given the proper incentives to conserve, so their water use increased. This growth taxed the system's capacity, particularly during the hot dry summer months. Lacking the Commission's approval to raise prices or to expand capacity, the company was forced to institute water-use restrictions periodically. These were viewed by the Commission, local politicians, and customers as symptoms of inadequate water service and poor management.

Deterioration of the system—the second problem—began to appear in the 1970s, when components of the original system began to leak. In 1977, the company recognized that capital improvements costing $500,000 were necessary to assure adequate service, and it planned to make these improvements in three stages.

The company's revenues for 1977,

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