

Capitalism and Cooperation

by Allan Levite

In a 1989 article appropriately titled “The Triumph of Capitalism,” socialist economist Robert Heilbroner, who deserves to be commended for his honesty, observed: “. . . at this moment socialism has no plausible economic framework.”¹ Perhaps socialists have finally reached the point where they will no longer argue that socialism or communism can ever outperform capitalism, confining themselves to the old argument that socialism is a more *moral* system than capitalism.

Morality, however, is not something that can be demonstrated by facts. It is an outgrowth of shared values, such as cooperation. In the past, socialists have tried to convince people that their doctrine not only adhered to this commonly accepted behavioral norm, but actually epitomized it. The program of utopian socialist Robert Owen, for example, was referred to as a system of “Mutual Cooperation and Community of Goods.”²

By using the word *cooperation* as its own exclusive property, socialism has always implied that capitalism produces competition at the expense of cooperation. Without a doubt, capitalism involves competition, but socialism seems to view competition as entirely harmful, placing little value on its role in economic improvement. Competition between products, however, launches the best ones to the forefront, while the makers of inferior products suffer losses. Price competition results in lower prices for consumers, and even when

price “wars” are not taking place, competition keeps prices down.

But in the midst of making these complaints about capitalism’s alleged suppression of cooperation, socialists joined liberals in complaining about oligopolies, price-fixing, and other efforts by manufacturers to divide up markets and keep competitors out—activities that would necessarily *involve* cooperation between manufacturers who were trying to *avoid* competing with each other. Under American law, conspiracies to fix prices and allocate market shares became illegal. Although socialists would probably applaud the motives behind antitrust laws, it would be hard to deny that one of the aims of these laws was to *prevent* cooperation between capitalists.

Who Doesn’t Cooperate?

Despite socialism’s refusal to recognize it, capitalism is founded on cooperation, and not only between capitalists within a given industry who might seek to regulate their markets and freeze out competitors. The farmer cooperates with the milling company, selling it grain at a price freely agreed upon by both. The railroad cooperates with the miller and ships the grain at agreed-upon rates to an agreed-upon destination, where both miller and railroad know that factory workers will cooperate by being on hand to receive and process it. The supermarket cooperates with the food processing company, buying the finished products and reselling them, and honoring the manufacturer’s coupons. In

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turn, the manufacturer cooperates with the supermarket by reimbursing it for coupons received. The bank cooperates with both by enabling them to make these millions of transactions very efficiently, and to transfer large sums electronically or by check. Banks also cooperate with families by making secured loans (e.g., mortgages), enabling them to buy homes, which also pleases real estate and residential construction companies.

Consumers have cash to pay for what they buy because they have cooperated with their employers by showing up for work on time and performing labor, for which the employers cooperate by paying them. Consumers also cooperate with supermarkets by buying the products and paying cash (and sometimes even by returning shopping carts to the rack).

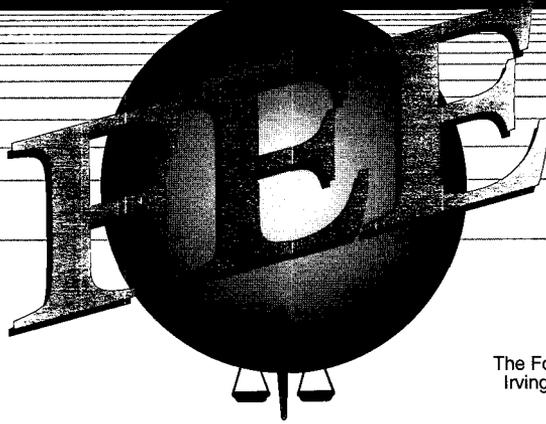
Actually, even if relations between merchants and their suppliers are not taken into account, there is nothing new about inter-firm cooperation due to mutual self-interest. About a century ago, fire insurance companies began to suspect that electrical equipment was causing building fires, and backed William Henry Merrill's idea for an independent testing laboratory for electrical products. Thus was born Underwriters Laboratories Inc., an independent, not-for-profit, nongovernmental organization that now conducts over 77,000 product investigations each year. Manufacturers voluntarily submit products to UL for testing and safety verification, and use of UL is not required by law. But few electrical manufacturers would even consider marketing an electrical product without the UL's coveted seal of approval, which is placed on more than nine billion products annually, and is known and trusted the world over.³ Here is an organization that fulfills the function of a government bureau, helping make sure that products comply with rigid safety standards—all without costing the taxpayers a cent—and accomplishes all this because capitalists *want* to cooperate with it! As this example illustrates, self-interest does not necessarily lead to competition at the expense of cooperation.

Capitalism also features cooperation in a more formal sense: what is now known as *strategic partnering*. Despite this impressive new description, joint ventures and licensing

agreements have taken place for quite a long time, and newer industries have merely adopted these standard practices. In the computer industry, for example, it is routine to buy a hardware device and find it “bundled” with software made by a different company, whose software the hardware company had licensed in order to include with their own product. Many companies have also been making agreements with other firms, by which marketing, manufacturing, or research will be conducted jointly between them. IBM, for example, jointly built a \$200-million plant with Toshiba, for the manufacture of screens for laptop computers. IBM also began in 1991 to jointly develop dynamic RAM chips with the German electronics firm Siemens. In Japan, Mitsubishi sells IBM mainframes under its own name, which augments IBM's own sales efforts.⁴ No U.S. manufacturer produces its own color television sets, VCRs, or CD players; all electronics products sold under the Kodak, General Electric, RCA, Zenith, and Westinghouse brands are made by these firms' foreign alliance partners and imported into the United States.⁵

Cooperation, Not Collusion

This cooperation between competitors is a far cry from the collusion that some capitalists have used on occasion to stifle competition or restrict output. Such conspiracies attracted criticism from writers and politicians, but the agreements never lasted long. The reason why Adam Smith observed that capitalists were always colluding to try to control markets is that markets were always changing, making yesterday's agreement obsolete and constantly necessitating a new agreement to try to hold together the previous conditions. Today, different reasons have been inducing capitalists to cooperate, and with different results. The fragmentation and spiraling complexity of today's mass markets have made it increasingly difficult for any single firm to possess everything it needs to succeed. Such agreements as those entered into by IBM were designed not to restrict output or control markets, but to acquire the skills, resources, or markets that one firm lacked and could



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A Free-Market Case Against Open Immigration?

Recently, upon finishing Leonard Read's superb book *Anything That's Peaceful* (FEE, 1964), I felt a surge of thankfulness and honor. I'm thankful that such a wise man lived and wrote, and I'm honored to now lead the organization that he founded. Leonard Read was truly a great liberal — a liberal, of course, in the original and correct meaning of the term. Genuine liberals (as opposed to the statist who today in America have stolen this noble name) never fancy themselves fit to interfere coercively in the lives of others. As Read expressed his liberal philosophy, all peaceful and voluntary actions among adults should be immune to state interference. The only justifiable use of physical force is to defend against another who has initiated coercion.

What a marvelous and workable principle on which to build civil society! Both theory and history prove that this principle generates peace, stability, prosperity, and a culture that is rich and diverse. And yet so many people are distressingly hostile to this principle.

Leftist hostility is predictable. After all, leftists are virtually *defined* as those who see state-initiated coercion (or the threat thereof) as a magic potion capable of conjuring up all imaginable good and ridding humankind of all existing evils.

It is bothersome, however, to find such hostility among those who claim to be friends of liberty and free markets. In particular, during the past few years a number of pro-market writers have argued against a policy of open immigration. While the airing of different sides of the immigration argument is surely useful, I personally find such arguments as presented to be wholly unpersuasive — and even, in some cases, distressingly illiberal.

The most popular version of the so-called libertarian case against immigration runs something like this.

Each private property owner has the moral right (and should have the legal right) to ban from his property, or to admit onto his property, anyone he chooses. In a free society, no one is coerced into unwanted associations with others. Therefore, because in a fully free society all land would be privately owned and government would be limited (at most) to keeping the peace, immigration policy in this society would be whatever each private property owner decides it to be. If I wish to let 100 unskilled Irish peasants onto my property, so be it. If my neighbor chooses never to admit onto his property even people from across the street, so be it. There would, in fact, be as many immigration policies in the fully free society as there are landowners. As a practical mat-

ter, immigrants would be people who contribute through gains-from-trade to domestic citizens.

But we do not live in a fully free society. Like it or not, we're stuck with a large and intrusive government. And this same government happens to own enormous tracts of land and public facilities. Given that excessive government is a reality that isn't soon disappearing, the best that citizens of a democratic society can hope for on the immigration front is that their overly powerful government mimics the immigration policies that a fully free society would adopt. Because there would be no free admission in a fully free society, there should be no free admission in today's less-than-free society. Indeed, open immigration today is tantamount to forced integration. Citizens who do not wish to associate with foreigners are forced to do so by a government that too freely admits foreign immigrants. And because force is bad, forced integration— a.k.a. open immigration—is bad.

This argument for limiting immigration appears in several different variations, but the above rendition captures the main theme. It is mistaken.

First, to ask government to mimic the outcomes of a pure private property rights system is to overlook the single most important reason why government should be strictly limited. Unlike owners of private property, government can resort to force to increase the size of its property holdings and the value of its portfolio. Government is *not* an owner of private property. Restrictions on government discretion are appropriate precisely because government possesses a legitimized monopoly on coercion.

Consider, for example, the constitutional protection of free speech. Would it be sensible to argue that, because each private-property owner has the right to regulate what is said on his property, government in our less-than-libertarian world should have the power to regulate speech uttered in public places or over public airwaves? Of course not. But such an argument is analogous to the argument for government restrictions on immigration.

Secondly, labeling open immigration as "forced integration" is disingenuous. Such a practice is identical to labeling the First

Amendment's protection of free speech as "forced listening." But keeping government from regulating speech is not at all the same thing as forcing people to listen. Likewise, allowing people to immigrate to America is not the same thing as forcing Americans to associate against their wills with immigrants. Under a regime of open immigration, I need not hire or dine with anyone whom I don't wish to hire or dine with. Indeed, whenever government restricts immigration it coercively prevents me, as an American, from hiring or dining with whoever I choose to hire or dine with. An immigrant who receives no welfare payments engages only in consensual capitalist acts with those (and only those) domestic citizens who choose to deal with the immigrant. Just as trade restraints are, at bottom, restrictions on the freedoms of domestic citizens, so, too, are immigration restraints restrictions on the freedoms of domestic citizens.

Thirdly, even if some coherent justification could be given in the abstract for restricting immigration, it is curious in the extreme that any proponent of liberty is willing in practice to trust government with the power to pick and choose which foreigners we domestic citizens will be permitted to deal with on our home shores. There is no reason to suspect that government will exercise this power more prudently and intelligently than it exercises other powers.

Whether or not immigrants increase or decrease measured GDP or per-capita income is an empirical question that can be answered only by sound empirical research. (Economist Julian Simon has carried out much of this research; he finds that immigrants promote prosperity.) But the moral case for open immigration is paramount. That case is this: a geopolitical border is a grotesquely arbitrary reason to prevent people from dealing with each other in whatever peaceful ways they choose.



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obtain only from another—which, in return, would receive something it lacked. Sometimes, the parties to such agreements are competitors, but these partnering agreements are cooperative, not collusive. In the fast-changing world of today's capitalism, competition and cooperation are becoming indistinguishable.

This does not mean that this increased cooperation will result in rigid oligopolies in which the major players share resources and keep out the newer, smaller players, because the cooperation *itself* was forced upon the major players by the same technological changes that tore apart their previous market structures. If anything, strategic partnering bodes well for small, emerging firms, because instead of having to compete against the giants, they will find themselves in a better position to offer skills or facilities to the large firms. IBM North America already has over 4,000 “partners,” many “creating highly specific software for smaller customers.”⁶

Indeed, partnering and “outsourcing” show no signs of leading to increased market concentration or reduced levels of competition, because, as one study has shown, 70 percent of all the alliances of this type that cross national borders break up within a short time.⁷ While there are still oligopolistic markets, and mergers that turn large firms into even larger ones, it is overlooked that capitalism has produced a constantly increasing number of different industries and markets, just as it has generated an ever-expanding number of products. This fact refutes the old Marxian idea of a trend toward a final, very small group of giant, highly profitable firms that buy up failed rivals until they control everything.

To those who lack understanding of how markets operate, such increased concentration may have even appeared to be happening during the 1960s, which featured the rise of the “conglomerates”—corporations that acquired smaller firms that belonged to completely different industries. For example, in 1969, Quaker Oats, a well-known food products company, acquired Fisher-Price Toys. But Quaker *sold* Fisher-Price in 1991, two years before tobacco giant Philip Morris sold

Birds Eye frozen vegetables to Dean Foods.⁸ The furniture company I worked for in the early 1970s was acquired by a food conglomerate, which soon regretted its decision, for the furniture company proved unprofitable. A few years later the food company closed it down.

While large firms often find it advisable to diversify, they do not simply buy up everything in sight just so they can own everything. They do not want to own assets that fail to make money. A division that becomes unprofitable will be “spun off,” and since few conglomerates will show equal profitability for each of their divisions, there will always be some divisions that are *less* profitable than others, even if they are all making money. The incentive exists to *sell* the less-profitable divisions and retain only the most lucrative ones—the “core competencies”—and rely on outsourcing for the rest. Thus, although partnering and outsourcing will increase inter-firm cooperation and help make firms more competitive, the increased reliance on agreements as opposed to acquisitions will prevent ever-increasing economic concentration.

Words and More Words

In spite of this trend toward increased collaboration between corporations, many writers still cling to the idea that capitalism is competitive in ways that forestall cooperation, while other forms of economic organization (such as socialism) would engender *true* cooperation. Discovering the basis of this interpretation, however, involves sociological rather than economic analysis. The great economists F.A. Hayek and Ludwig von Mises were well aware of the importance of the intellectual class and the extent to which it had embraced socialism. This was discussed in Hayek's article “The Intellectuals and Socialism” and Mises's book *The Anti-Capitalistic Mentality*. Both Marxism and socialism are doctrines that claim to exist to improve the condition of the working classes, but the doctrines themselves were the products of intellectuals. For example, when Karl Marx and Friedrich Engels began to call themselves the Communist Party, they asked

socialist friends in Brussels to join, recruiting 15. Of this total of 17 members, including themselves, 15 (88 percent) were *writers*.⁹ To a very great extent, socialism has always been the product of what is now called the “knowledge class,” the “information elite,” or “symbolic analysts”—academics, writers, journalists, and others who make their living by processing and analyzing documents and ideas.

Because socialism was originated by the social class that lives by words, it has always been highly productive in the use of labels, slogans, and buzzwords. Despite its failure as an economic system, socialism has never lacked the ability to have itself described in the most glowing terms, which explains why the cooperation produced by capitalism is not called cooperation, and why the jealousy and friction produced by socialism’s arbitrary division of goods is called cooperation. Because the origin of this descriptive divergence is sociological rather than logical, the triumph of capitalism over socialism is unlikely to affect it.

Instead of resorting to the use of favorable labels (such as “cooperation”) for the things they approve of, and unfavorable labels such as “dog-eat-dog competition” for the things they disapprove of, it would have been more accurate for socialists to eschew these devices in favor of such descriptions as profit-making and non-profit-making. For it is clear that socialism does not distinguish “cooperation” from “competition” by the nature or results of these acts, but by the intentions of their initiators. No matter how much cooperation goes into a profit-making activity, socialists will claim that it is competitive rather than cooperative, and will treat economic competition as destructive and divisive, as if it could never contain cooperative elements.

Socialists were aware, of course, that the parties to a transaction must cooperate with each other in order to make the exchange, but insisted that this cooperation was merely formal, hiding a deeper relationship that is actually exploitative, and which “forced” one of the parties to act. Yet even a highly paid athlete might consider himself to be exploited, because although he is a millionaire,

his employer makes a great deal more money from his performance than he does. Still, most people would disagree, because his earnings are high, and even socialists do not spend their time complaining about the exploitation of highly paid employees. This indicates that socialism does not *always* define exploitation as a relationship between persons occupying positions of greatly unequal power. A very highly paid worker, such as a film star, might make a great deal less than his employer, but could hardly be considered powerless: some film stars become directors and even producers!

Therefore, at *some* wage level, the amount of remuneration is what determines whether exploitation exists. But if a sufficiently high wage negates exploitation, it means that workers can decide that if their wages exceed a certain level, they are not being exploited, making their decision to accept employment at those wage levels a free and unencumbered choice. If workers use their wage levels as an indicator of whether they are exploited, then the indicative point can be set at *any* level, and an unemployed worker might very well consider *any* job offer to be an acceptable bargain. What is a bad wage offer now might be a good one later, depending on one’s circumstances, in the same way that a good price now might be a bad price later.

This refutes the notion that workers who are not receiving as high a wage as they would like are not cooperating willfully with their employers, even though they show up for work on time and do their jobs. From the employee’s viewpoint, the remuneration is *always* insufficient. No matter what the agreed-upon wage is, workers seek the highest wages they can get, just as merchants seek the highest prices they can get. They will *always* conclude that if conditions had been more favorable, they could have gotten more. To call this “exploitation” because the worker was “compelled” by economic circumstances to accept a job at lower wages than he wanted is no different from saying that a merchant who is “forced” to offer close-out prices on his goods is “exploited” by consumers because they would not offer him the higher prices he wanted. To make an offer and settle for the

best deal available, in the absence of the *ideal* deal—which is never available—is a function of self-interest, and it is difficult to say with a straight face that people who are following their self-interest are being exploited.

Intellectuals and Sacrifice

When the interests of two parties intersect, cooperation results, and a transaction occurs. If socialists consider an activity to be cooperative only if it lacks the element of personal gain, then the socialist definition of cooperation must include, if not focus on, some element of self-sacrifice. From this standpoint, “cooperation” must be mainly an act of renunciation or submission. “Cooperation,” however, sounds much better to working-class people than renunciation or submission, so this favorable word is used instead. It is the foundation of *sacrifice* that best explains why capitalistic endeavors cannot qualify as “cooperative” under the socialist definition. Governments can disburse goods or cash to their citizens, but only by taking them from other citizens. However, all *market* exchanges of goods or services reap gains for both parties. Sellers value the money they receive for their goods more than the goods themselves, and buyers value the goods more than the money, otherwise the exchanges would not have occurred. Whatever name might be given to such transactions, the two parties have in fact cooperated with each other, and sacrifice was absent.

The intellectual class, however, might well have felt uncomfortable about its separation

from the workaday world. Its members grasped pens and spent long hours in cafes, while others had to swing hammers and wield sewing needles to make their living. Capitalism’s replacement of sacrifice with gain did not constitute a happy change for such remorse-ridden thinkers who, unlike working-class people, place a high value on sacrifice because it alleviates their uneasiness, while gain only adds to it. They could not change reality, but they could, at least, *rename* it, especially since the application of names and labels was their natural function. Accordingly, economic sacrifice soon became known as “cooperation,” while gainful cooperation became “dog-eat-dog competition.”

It is time to start insisting that the labels used to describe economic activity give a more accurate depiction of that activity and its results. □

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Education and the Free Society

by Linda C. Raeder

The classical-liberal philosophy of limited government and the rule of law is in danger of being consigned to oblivion. Enemies of the free society have successfully appropriated the time-honored “liberal” name and transformed it into the pseudo-liberalism of contemporary statism.

Part of the responsibility for that transformation undoubtedly belongs to the defenders of liberal constitutionalism. We have obviously failed to “make the case,” either rationally or imaginatively, for the free society as traditionally understood in the West. Hence we are in danger of losing not only our understanding of the relationship between limited government and human flourishing, but also of the very meaning of constitutional government. Nor have we sufficiently attended to the formative role of culture in the maintenance of the constitutional ethos. It is imperative, however, that the classical understanding of liberal order remain a living understanding, particularly within the academy. Yet it is well known that many academics are hostile not only to the classical-liberal order but also to the moral and philosophical heritage of Western civilization which produced that order. Those of us who would preserve the free society must not abandon the scholarly forum.

The abandonment of the modern university to the enemies of the free society is, moreover, bound up with the transformation of the meaning not only of “liberalism” but of all the major concepts through which we articulate our political, social, and moral self-understanding. The notions of freedom,

law, rights, democracy, constitutionalism, and morality have all been distorted in service of limitless government. Even well-meaning people, for instance, no longer seem to understand that the American framers did not establish a “democracy,” but rather a constitutional government, one characterized by limited power and the rule of law.

Today, however, “democracy” is often touted as if it were equivalent to liberal constitutionalism and the free society; any distinction has been largely lost. In a similar manner, the traditional notion of right has undergone a pernicious transformation. A right, as historically conceived in the West, did not refer to a positive entitlement to government services but to a largely “negative” protection against arbitrary governmental interference with one’s beliefs and activities.

Moral standards have also been significantly redefined. Traditional Western morality was concerned with personal motives and actions, not with social outcomes, emotional pleas for collective “compassion,” or commitment to a chimerical “social justice” to be achieved through organized political coercion, as it often is today.

The ongoing destruction of the free society has long been abetted by those who bear responsibility for the transmission of our cultural heritage—university professors and others involved in higher education. To preserve the traditional Western understanding of freedom-under-law, we must redress that imbalance, first, by restoring the classical-liberal philosophy of limited government as a focus of scholarship, and, second, by becoming exemplars of its ethos. Moreover, and perhaps even more importantly, we must

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