

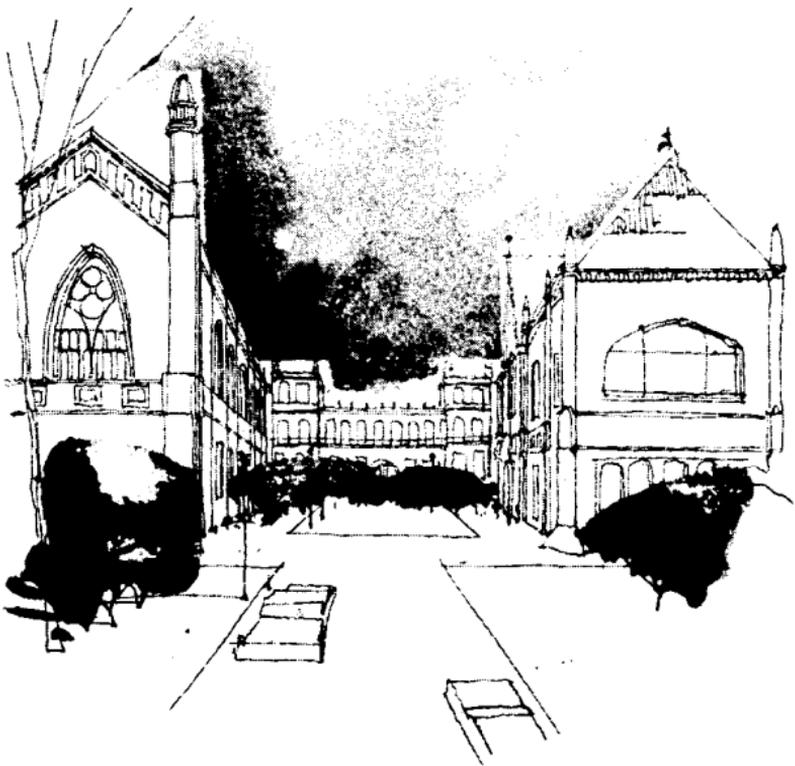
# **Selected Papers No. 7**

A DIALOGUE ON

# The Proper Economic Role of the State

By **GEORGE J. STIGLER**

and **PAUL A. SAMUELSON**



**GRADUATE SCHOOL OF BUSINESS  
UNIVERSITY OF CHICAGO**

**In 1963, two distinguished scholars took the platform to discuss the proper role of government in the economic life of the nation. Reproduced on these pages is the Swarthmore dialogue between GEORGE J. STIGLER, Charles R. Walgreen Distinguished Service Professor of American Institutions at the Graduate School of Business of the University of Chicago, and PAUL A. SAMUELSON, Professor of Economics at the Massachusetts Institute of Technology.**

**Their appearance was sponsored by the Sperry and Hutchinson Company Lectureship Program, established in 1960 to bring distinguished experts in public affairs and the social sciences before the faculties and students of college and university campuses across the county.**

**GEORGE J. STIGLER** is the *Charles R. Walgreen Distinguished Service Professor of American Institutions, and Director of the Walgreen Foundation, Graduate School of Business, University of Chicago.*

*Previously he served on the faculties of Columbia University, Brown University, the University of Minnesota and Iowa State College; and lectured at the London School of Economics.*

*A member of the Research Staff of the National Bureau of Economic Research since 1941, he also belongs to the American Philosophical Society, the American Economic Association, the Royal Economics Society and the Universities-National Bureau Committee for Economic Research; and is president-elect, American Economic Association.*

*In 1960-61 he was Chairman of the Price Statistics Review Committee of the National Bureau of Economic Research. In 1954-55 he was a member of the Attorney General's Committee for Study of Anti-Trust Laws.*

*He is the author of many articles in the field of economics, as well as a number of books including The Theory of Price, which was first published in 1946, and Capital and Rates of Return in Manufacturing, published by the National Bureau of Economic Research in 1963.*

Third Printing  
December 1968

# 1.

## The Government of the Economy

by GEORGE J. STIGLER

NO DOUBT this is the best of all possible worlds, for the time being. But even in the best of possible worlds, a good many things happen that displease us. Without exception we are shocked when a tranquilizer is sold, and its use by pregnant women leads to tragic deformities in babies. We are all distressed when there is extensive unemployment and personal suffering. Most of us are displeased when a strike closes down a railroad or a port or the airlines. Some of us are deeply annoyed when the price of soybeans falls. A few of us are outraged when an increase is announced in the price of steel, but this particular few is not unimportant. And I, if no one else, am incensed with an industry that bribes assistant professors to be learned on TV quiz shows. Some of us full professors could have memorized the answers, and anyway it should be necessary to bribe a professor only to be stupid.

There was an age when social dissatisfaction was kept in the house. All evils were ancient evils, and therefore necessary evils which served at least to keep men humble and patient. This resignation to imperfection has almost vanished in modern times—the hereafter in which all problems are solved has been moved up to two months after the next election. And government has become the leading figure in almost every economic reform. I propose to discuss what governments can do in economic life, and what they should do.

The question of what governments can do,

what they are capable of doing, will strike many Americans, and for that matter most non-Americans, as an easy one. For it is a belief, now widely held and strongly held, that the government can, if it really puts its mind and heart to a task, do anything that is not palpably impossible. The government, we shall all admit, cannot really turn the number  $\pi$  into a simple fraction by legislative mandate, nor can a joint resolution of the houses of Congress confer immortality. But with a will, the government can see to it that fully 85 per cent of the male population, and a few women, are taught several infinite series for calculating  $\pi$ , and with a will, the government can prolong human life appreciably by suitable medical and social insurance programs.

### ***An Article Of Faith***

This acceptance of the omnipotence of the state does not represent a generalization of experience; it is not a product of demonstrated effectiveness in bending events to the wise or foolish designs of policy. On the contrary, the belief is an article of faith, indeed an article of almost desperate faith. It is not an intrinsically absurd belief; there is no rigorous logical demonstration that the state cannot turn sows' ears into silken purses. There is also no logical demonstration that all men cannot become saints, but the number of saintly men has not yet risen to the level where the census makes it a separate statistical category.

Our faith in the power of the state is a matter of desire rather than demonstration. When the state undertakes to achieve a goal, and fails, we cannot bring ourselves to abandon the goal, nor do we seek alternative means of achieving it, for who is more powerful than a sovereign state? We demand, then, increased efforts of the state, tacitly assuming that where there is a will, there is a governmental way.

Yet we know very well that the sovereign state is not omnipotent. The inability of the

state to perform certain economic tasks could be documented from some notorious failures. Our cotton program, for example, was intended to enrich poor cotton farmers, increase the efficiency of production, foster foreign markets, and stabilize domestic consumption. It is an open question whether 28 years of our farm program have done as much for poor cotton farmers as the trucking industry. Again, the Federal Trade Commission is the official guardian of business morals, including advertising morals. I am reasonably confident that more would have been achieved if one of the F.T.C.'s 48 years of appropriations had been devoted to a prize for the best expose of sharp practices.

That there should be failures of governmental policy is not surprising, nor will the failures lead us to a blanket condemnation of governmental activity in economic life. Invariable success, after all, is found in only a few places—one, by the way, being the recapitulation of the previous year by college presidents. What is surprising is how little we know about the degree of success or failure of almost all governmental intervention in economic life. And when I say how little we know, I expressly include the people whose business it should be to measure the achievements, the professional economists. Let me give just one example. It is taken from a long established area of state control, the generation and distribution of electricity.

The electric utility industry cannot be organized in the traditional competitive manner. It is cheaper to produce electricity in a big plant than in a small one, and it would be an infernal nuisance to have three or six sets of crews digging up the streets to lay cables—in fact it is an infernal nuisance to have one company doing it.

As a result of these conditions, the industry would be controlled by one firm in most communities even if there were no legal controls. So everywhere the state has intervened to pro-

tect users from the possible exactions of private monopolists. In Europe the industry is almost invariably nationalized; in the United States it is regulated by state Public Service Commissions in all but six states, and electrical plants are operated directly by many municipalities.

### ***Controlled for Decades***

Regulation has been vigorous, as measured by the opinions of almost all informed people, since 1907—this is no new, experimental venture in public control. Hundreds of scholars have studied the workings of control. Let us ask this assemblage of savants three questions:

QUESTION 1: Has regulation reduced the average level of rates?

ANSWER 1: ***“Of course, stupid.”***

QUESTION 2: How do you know?

ANSWER 2: ***“Because the industry earns only about 7 or 8 per cent on investment, and an uncontrolled monopolist would earn more.”***

QUESTION 3: Where can one learn what an uncontrolled monopolist would earn?

ANSWER 3: ***“The reference slips my mind.”***

In plain fact, the literature does not answer the question of the effect of regulation on the level of rates. Nor does it answer the question of the effects of regulation on the structure of charges as between large and smaller consumers. Nor does it tell the effects of regulation on stockholders or employees.

I use this example simply because I have recently made some study of the effects of this regulation. My tentative conclusion is that the effects have been quite small—that it is very doubtful whether consumers have been saved as much by public regulation of the electrical utilities as they have had to pay,

directly and indirectly, for regulation. I do not ask you to accept this particular result, which will be published shortly, but I do ask you to believe that the voluminous literature does not contain clear answers to the most basic questions.

When we have made studies of governmental controls that are sufficiently varied in scope and penetrating in detail, we may be able to construct a set of fairly useful generalizations about what the state can do. But society will not wait upon negligent scholars before meeting what seem to be pressing issues. The remainder of my talk cannot wait either, so I am driven to present what I consider plausible rules concerning feasible economic controls.

There is a great danger, as you will know, that the lessons one draws from experience will be those which one seeks. From 1940 to 1942 I worked for an agency that eventually became the Office of Price Administration. I ask you to be forgiving: I was young, and at least I was eventually eased out for opposing price controls. We hired experts to appraise the economic policies of Germany, England, and Japan, and to provide lessons of foreign experience. I recall clearly that some of these essays had to be revised three times before they provided the lessons Leon Henderson needed in his battle for the price control law.

What economic tasks can a state perform? I propose a set of rules which bear on the answer to the question, but I shall not attempt a full argument in support of them—it must suffice to give an illustrative case, a plausible argument. It must suffice partly because full proofs have not been accumulated, but partly also because I wish to have time to discuss what the state should do, which is considerably less than what it can do.

**RULE I:** The state cannot *do anything quickly*.

It would be unseemly to document at

**length the glacial pace of a bureaucracy in double step. Suffice it to say that if tomorrow a warehouse full of provisions labelled "For General Custer: Top Priority" were found, no one would have to be told whether the warehouse was publicly or privately owned. That warehouse is still lost, but consider this report on the Federal Trade Commission by the Select Committee on Small Business of the House of Representatives:**

From a large number of individual cases studied, one has been selected to indicate the tortuous movement of a case through the complicated mechanism of the Commission. The Florida Citrus case (Docket 5640), although in other respects reasonably typical, was chosen for three specific reasons: (1) It is one in which prompt action was highly desirable; (2) it involved no novel questions of law; and (3) it **required no lengthy hearings before trial examiners**, as all allegations of fact were admitted by the respondent. The chronology in this case in brief is as follows:

- Apr. 23, 1946-----Docketing of the application for **complaint.**
- Sept. 30, 1947-----Recommendation that complaint be issued upon completion of **investigation.**
- Jan. 23 1948-----Approval of examiner's recommendation by chief examiner.
- Feb. 3, 1948 -----Consideration by **Commission and assignment to Commissioner for preliminary review.**
- Oct. 13, 1948-----Recommendation of Commissioner that case be referred to **Bureau of Litigation.**
- Oct. 29, 1948-----Request to Department of Justice for **certain information.**
- Do-----Assignment to trial attorneys for review and recommendation.
- Dec. 15, 1948-----Report of trial attorney submitting draft of **complaint.**
- Dec. 21, 1948-----Memorandum to **Commission by Chief of Division of Anti-monopoly Trials that complaint be issued.**
- Dec. 27, 1948 -----Referral to **Commissioner.**
- Feb. 11, 1949-----Recommendation by **Commissioner that complaint be issued.**

- Feb. 18, 1949**-----*Complaint issued. Beginning of formal action.*
- Apr. 11, 1949**-----*Filing of answer by respondents admitting allegations of fact.*
- Sept. 8, 1949**-----*Granting of respondent's request for leave to file substitute answer.*
- Oct. 10, 1949**-----*Filing of respondent's brief on questions of law.*
- Oct. 18, 1949** ----- *Filing of reply brief.*
- Dec. 30, 1949** ----- *Assignment to Commissioner.*
- Jan. 10, 1950** ----- *Reassignment to another Commissioner.*
- June 30, 1950**-----*Recommendation of Commissioner that matter be referred to Bureau of Zndustry Cooperation. So ordered by Commission.*

So passed 50 months; I must in candor add that 25 months later an order was issued. A decent respect for due process lies behind some of the procedural delays, and poses a basic issue of the conflicting demands of justice and efficiency in economic regulation. But deliberation is intrinsic to large organizations: not only does absolute power corrupt absolutely; it delays fantastically. I would also note that initiative is the least prized of a civil servant's virtues, because the political process allots much greater penalties for failure than rewards for success.

### ***Size vs. Control***

**RULE 2:** When the ***national state performs detailed economic tasks, the responsible political authorities cannot possibly control the manner in which they are performed, whether directly by governmental agencies or indirectly by regulation of private enterprise.***

The lack of control is due to the impossibility of the central authority either to know or to alter the details of a large enterprise. An organization of any size-and I measure size in terms of personnel-cannot prescribe conduct in sufficient detail to control effectively

its routine operations: it is instructive that when the New York City subway workers wish to paralyze their transportation system, they can do so as effectively by following all the operating instructions in literal detail as by striking.

Large organizations seek to overcome the frustrating problems of communication and command by seeking and training able executives, who could be described more accurately as able subordinates. But to get a good man and to give him the control over and responsibility for a set of activities is of course another way of saying that it is impossible for the central authorities to control the activities themselves. As the organization grows, the able subordinate must get able subordinates, who in turn must get able subordinates, who in turn must get able subordinates, who in turn-well, by the time the organization is the size of the federal government, the demands for ability begin to outstrip the supply of even mediocre genes.

I estimate, in fact, that the federal government is at least 120 times as large, as any organization can be and still keep some control over its general operations. It is simply absurd to believe that Congress could control the economic operations of the federal government; at most it can sample and scream. Since size is at the bottom of this rule, two corollaries are:

- 1 Political control over governmental activity is diminishing.***
- 2 The control exercised by a small city is much greater than the control exercised over General Motors by its Board of Directors.***

### ***Uniformity of Treatment***

***RULE 3: The democratic state strives to treat all citizens in the same manner; individual differences are ignored if remotely possible.***

The striving for uniformity is partly due to a desire for equality of treatment, but much more to a desire for administrative simplicity. Thus men with a salary of \$100,000 must belong to the Social Security system; professors in New York must take a literacy test to vote; the new automobile and the 1933 Essex must be inspected; the most poorly co-ordinated driver and the most skillful driver must obey the same speed limits; the same minimum wage must be paid to workers of highly different productivities; the man who gives a vaccination for small pox must have the same medical credentials as a brain surgeon; the three-week-old child must have the same whiskey import allowance as a grown Irishman; the same pension must be given to the pilot who flew 100 dangerous missions as to the pilot who tested a Pentagon swivel chair; the same procedure must be passed through to open a little bank in Podunk and the world's largest bank in New York; the same subsidy per bale of cotton must be given to the hill-billy with two acres and the river valley baron with 5,000 acres. We ought to call him Uncle Same.

**RULE 4: *The ideal public policy, from the viewpoint of the state, is one with identifiable beneficiaries, each of whom is helped appreciably, at the cost of many unidentifiable persons, none of whom is hurt much.***

The preference for a well-defined set of beneficiaries has a solid basis in the desire for votes, but it extends well beyond this prosaic value. The political system is not trustful of abstract analysis, nor, for that matter, are most people. A benefit of \$50 to each of one million persons will always seem more desirable than a \$1 benefit to each of 150 million people, because one can see a \$50 check, and hence be surer of its existence. In fact, it is worth mentioning one corollary of **RULE 4:**

no politician will worry much about anything that can't be photographed. Another corollary is: if Texas wants it, give it.

The suspicion of abstract theory is of course well-founded: most abstract theories recorded in history have been false. Unfortunately it is also an abstract theory, and a silly one, that says one should believe only what he can see, and if the human race had adhered to it we would still be pushing carts with square wheels.

You do not need to be told that someone is always hurt by an economic policy, which is only a special case of the basic economic theorem that there is no such thing as a free lunch. On the other hand, I do not say that all political lunches are priced exorbitantly.

**RULE 5: *The state never knows when to quit.***

One great invention of a private enterprise system is bankruptcy, an institution for putting an eventual stop to costly failure. No such institution has yet been conceived of in the political process, and an unsuccessful policy has no inherent termination. Indeed, political rewards are more closely proportioned to failure than to success, for failure demonstrates the need for larger appropriations and more power. This observation does not contradict my previous statement that a civil servant must avoid conspicuous failure at all costs, for his failure is an unwise act, not an ineffectual policy.

The two sources of this tenacity in failure are the belief that the government must be able to solve a social problem, and the absence of objective measures of failure and success. The absence of measures of failure is due much more to the lack of enterprise of economists than to the nature of things. One small instance is the crop forecasting service of the Department of Agriculture. This service began shortly after the Civil War, and it

eventually involved thousands of reporters and a secrecy in preparation of forecasts that would thwart Central Intelligence. It was not until 1917 that a Columbia professor, Henry Moore, showed that the early season forecasts were almost as good as flipping a coin, and the later season forecasts were almost as good as running a regression equation on rainfall. But as I have remarked, most public policies simply have not been studied from this viewpoint.

Let me emphasize as strongly as I can that each of these characteristics of the political process is a source of strength in some activities, as well as a limitation in other activities. If the state could move rapidly, contrary to **RULE 1**, and readily accepted abstract notions, contrary to **RULE 4**, our society would become the victim of every fad in morals and every popular fallacy in philosophy. If the state could effectively govern the details of our lives, no tyranny would ever have been overthrown. If the state were to adapt all its rules to individual circumstances, contrary to **RULE 3**, we would live in a society of utter caprice and obnoxious favoritism. If the state knew when to quit, it would never have engaged in such unpromising ventures as the American Revolution, not that I personally consider this our best war. But what are virtues in the preservation of our society and its basic liberties are not necessarily virtues in fixing the wages of labor or the number of channels a television set can receive.

These rules, and others that could be added, do not say that the state cannot socialize the growing of wheat or regulate the washing of shirts. What the rules say is that political action is social action, that political action displays reasonably stable behavioral characteristics, and that prescriptions of political behavior which disregard these characteristics are simply irresponsible. To say, after describing a social economic problem, that the state must do something about it, is equivalent in

rationality to calling for a dance to placate an angry spirit. In fact the advantage is with the Indians, who were sure to get some useful exercise. The state can do many things, and must do certain absolutely fundamental things, but it is not an Alladin's lamp.

### *State's Proper Economic Role*

I turn now to our subject, the proper economic role for the state.

A tolerably adequate discussion of this subject would involve a fairly detailed statement of the major values of American society, either as we think they are or as we think they should be. In the course of such a statement we would have to decide on the comparative importances of national defense, personal freedom, benevolence and humanitarianism, egalitarianism, and other civilized values.

After completing this large task, probably to no one person's satisfaction, we should then have to take up each of the incredibly numerous economic activities now undertaken by the state or currently proposed to it, and examine this activity in the light of these basic social values, of the probable capacity of governments to perform tasks, and of the detailed economic effects of the policies. This may be a suitable syllabus for a four-year course, but borders on the ambitious as a program for the remainder of this hour.

I therefore propose merely to sketch what I believe is the proper treatment of certain classes of important economic problems. Even a much wiser man, speaking more rapidly than I can, would have to court the charge of dogmatism by so cursory a treatment, but at least a basis will be provided for our subsequent discussion.

### ***Class 1 Monopoly***

The fear of monopoly exploitation underlies a vast network of public regulation—the control over the so-called public utilities, in

cluding the transportation and communication industries and banking institutions, as well as traditional antitrust policies. The proper methods of dealing with monopoly, in their order of acceptability, are three:

1. The maintenance or restoration of competition by the suitable merger prevention policies, which we now fail to use in areas such as rail and air transport, and by the dissolution of monopolies. This method of once-for-all intervention provides the only really effective way of dealing with monopoly.

It will be said that for technological reasons even a modest amount of competition is unattainable in many areas. I believe these areas are very few in number. Even when a community can have only one electric company, that company is severely limited by the long-run alternatives provided by other communities.

2. Where substantial competition cannot be achieved—and I do not ask for perfect competition—the entry into the field is often controlled by the state—for example the TV channels are allocated by the FCC. Here auctioning off the channels seems the only feasible method of capturing the inherent monopoly gains. The history of regulation gives no promise that such gains can be eliminated.

3. In the few remaining cases in which monopoly cannot be eliminated or sold to the monopolist, monopolies should be left alone, simply because there is no known method of effective control.

## Class 2: Poverty

A community does not wish to have members living in poverty, whatever the causes of the poverty may be. The maximum level of socially tolerable poverty will vary with the society's wealth, so poor societies will stop short at preventing plain starvation, but Texans will demand, through the oil embargoes that Presidents Eisenhower and Kennedy found expedient to accept, also Cadillacs and

**psychiatrists in their minimum poverty budget. I consider treatment of poverty a highly proper function of the state, but would propose that it be dealt with according to two principles:**

1. Direct aid should take the form of direct grants of money, and only this form. The present methods involve an unending chain of grants in kinds: Some subsidized housing, some subsidized medical care, some subsidized food, some rigging of selling prices of cotton and wheat, some lunches for children, and so on. Not only are many of these policies grossly inefficient, as when a farm support program hurts tenants and helps landowners or a minimum wage law leads to the discharge of the neediest workers, but also the policies impose gross limitations on the freedom of the poor. If the poor would rather spend their relief checks on food than on housing, I see no reason for denying them the right. If they would rather spend the money on whiskey than on their children, I take it that we have enforceable laws to protect children.

2. The basic problem of poverty from the social viewpoint, however, is not the alleviation of current need but equipping the people to become self-supporting. Here we have been extraordinarily phlegmatic and unimaginative in acquiring understanding of the basic problem of low productivity and in devising methods of increasing the skills and opportunities of the poor. The old English settlement laws sought to tie the poor to their native parish, and this utter perversity is presently approached by a relief and old age system which at times imposes marginal taxes in excess of 100 per cent on earnings. We have become so single-minded in worshipping the curriculum of the good liberal arts college that we have only a primitive system of industrial training. We tolerate widespread restrictionism on entry by **unions, when it is the excluded entrants we should be worrying about.**

**In fact, so-called liberal policies in this area often seem to me to be almost studied in their callousness and contempt for the poor. Many ameliorative policies assume that the poor are much poorer in intelligence than in worldly**

goods, and must be cared for like children. Few people ask of a policy: What will be the effects on the poor who are not beneficiaries? If we tear down a slum, and rehouse half the people better at public cost, the only response to a query about the other half will be—we must do this for them too. Much of our welfare program has the macabre humor of a game of musical chairs.

### ***Class 3: Economic Distress***

I define economic distress as experiencing a large fall in income, or failing to share in a general rise, but without reaching some generally accepted criterion of poverty—of course the two differ only in degree. Much of our farm program, our oil program, our protective tariff system, our regional development schemes, our subsidies for metals and soon for commuters, are so motivated. Here my prescriptions would be:

1. Compensation for losses in the cases in **which the** distress is clearly and directly caused by governmental policy.
2. Exactly the same kind of treatment of distress as of poverty in other respects: Direct grants in the short-run; policies to foster the mobility of resources in the long-run. I do not conceal the belief that many of these special aid programs are so indefensible that an open subsidy program could not survive.

### ***Class 4: Consumer and Worker Protection***

Since unpunished fraud is profitable, it must be punished. I doubt whether many people realize how strong are the remedies provided by traditional law, and in particular how effective the actions of people who have been defrauded. I am confident that research in this area would suggest methods of vastly increasing the role of self-policing in the economy.

**It is otherwise with the alleviation of consumer incompetence: The belief is becoming strong that there is much fraud, or at least indefensible waste, that consumers are incompetent to discover. An illustration may be taken from the hearings on the "Truth in Lending" bill which Senator Douglas has been seeking:**

The following actually took **place on the weekend of February 5, 1960, in the city of Chicago.** It was a chill winter's day when William Rodriguez wandered from movie house to movie house, his mind desperately seeking the illusions of the great silver screen.

Finally, the projectors were still and William once more walked the now silent streets. Before returning to his wife, Nilda, and their four children, he stopped at a drugstore to make a purchase. Then, as he slowly trudged through the rain and snow, he began to eat rat poison.

At 2:00 A.M., he reached home and told his wife what he had done. Nilda called the police who came to take her husband to the hospital. As they carried him into the street, a letter dropped from his pocket. The letter had been sent by a Chicago firm that had sold William a second-hand TV set on time. The set had broken down the day after he received it. The firm threatened to garnishee his wages if he did not pay some of the money he owed. William Rodriguez received the bill on Thursday. He had until Saturday, the day he died, to make payment.

William Rodriguez had two failings. He simply would not listen to advice if it meant giving up something for Nilda and the children. Further, he would always take anybody's word for anything when buying things. At the time of his death, William Rodriguez owed about \$700. Part of his debt included a religious medal he had bought for his wife on Mother's Day. The medal cost William \$30. It was later valued at 50 cents.

It even reached the point where William was charged for goods he never purchased. Once a stranger came to Nilda's door and left a bedspread. The stranger said it was for a neighbor and that he would pick it **up the next day.** He never came. Shortly thereafter, William's pay was garnished for \$34.

**Although his wages had been garnisheed three times previously, there was no judgment against William Rodriguez when he died. This time, though, he feared new garnishments might mean the loss of his job. And he knew, too, that even if he was not fired, the garnishments would mean endless hardship to his family.<sup>1</sup>**

**I assume** this tragic tale is true-what shall we do?<sup>2</sup> My basic answer to this painful problem is: In order to preserve the dignity and freedom of the individual in my society, I shall if I must pay the price of having some fail wholly to meet the challenge of freedom. I find it odd that a society which once a generation will send most of its young men against enemy bullets to defend freedom, will capitulate to a small handful of citizens unequal to its challenge.

This basic position does not imply that we should accept the institutions of 1900, or 1963, or any other year, as ideal in the protection they have given to men against fraud and danger. We should be prepared to examine any existing institution, or any proposal for change, with an open mind.

We should not, however, accept dramatic episodes as a measure of need; we should not simply assume that there is a useful law for every problem; and we should not lazily accept remedies which take freedom from 97 men in order to give protection to three.

I should add, since I introduced the question, that I am in favor of truth in lending, and also in borrowing, and in selling, and in campaigning for office, and in lecturing to Swarthmore students, but not in courtship. Senator Douglas' bill has my support the day he shows me, first, that it will achieve any

---

<sup>1</sup> "Hearings Before a Subcommittee of the Committee on Banking and Currency, United States Senate," Eighty-seventh Congress, First Session on S.1740 (Washington, D.C.: July 17-20, 24-27, 1961). p. 81.

<sup>2</sup> Of course we should strengthen the institutions designed to protect the Rodriguezes from fraud, but they would not protect him from folly.

significant results, and second, that these results are worth at least 10 per cent of the social costs of enforcing the statute.

These classes do not exhaust the range of functions undertaken by modern states, but they will suffice to illustrate the positions that seem to me to best meet the values of our society and the known limitations on its political processes.

And now I close. I consider myself courageous, or at least obtuse, in arguing for a reduction in governmental controls over economic life. You are surely desirous of improving this world, and it assuredly needs an immense amount of improvement. No method of displaying one's public-spiritedness is more popular than to notice a problem and pass a law. It combines ease, the warmth of benevolence, and a suitable disrespect for a less enlightened era. What I propose is, for most people, much less attractive: Close study of the comparative performance of public and private economy, and the dispassionate appraisal of special remedies that is involved in compassion for the community at large. I would urge you to examine my views in the most critical spirit, if I thought it necessary; I do urge you to attempt the more difficult task of exercising your critical intelligence in an appraisal of the comfortable wishfulness of contemporary policy.



PAUL A. SAMUELSON, *Professor of Economics at Massachusetts Institute of Technology, brings impressive credentials to this discussion of government's economic role.*

*Author and co-author of basic and advanced works in economics, he has served (and continues to serve) as consultant to Federal agencies. He has been consultant to the National Resources Planning Board, the War Production Board, the United States Treasury Department, and the RAND Corporation.*

*He was adviser to the President's Committee on National Goals; is a Fellow of the British Academy, a member of the American Philosophical Association and the American Academy of Arts and Sciences; was 1951 President of the Econometric Society, and is a member of its editorial board.*

*In 1947 he was awarded the John Bates Clark medal of the American Economic Association; in 1961 served as President of the Association.*

*Among his best-known works: Economics: An Introductory Analysis, Foundations of Economic Analysis, Readings in Economics, Linear Programming and Economic Analysis.*

## 2.

### The Economic Role of Private Activity

by PAUL A. SAMUELSON

*Introduction: Matter and Antimatter*

THOREAU, **disapproving of the Mexican War, would not pay his taxes and was put in jail for civil disobedience. His Concord neighbor, Emerson, went to visit him down at the hoosegow and called out: "Henry, what are you doing in there?" Thoreau replied, "Waldo, what are you doing out there?"**

**Illustrative of the same point was a conversation I had once with an economist for one**

of the great international oil companies. I was astonished to learn from him that their crews and engineers did not drill for oil in the Middle East. He explained the paradox as follows: “The Sheiks there are always anxious to make us sell immediately more oil than the market will bear; and they would take a dim view if we slackened on the job of exploration. So, we drill in the hope of getting dry holes, but follow a research procedure that will mark off for us where oil really is to be found.”

By now you will have perceived my point. One way of approaching the question, “What is the proper role of Government?” is to ask, “What is the proper role of non-Government?” While you cannot be confident that the man who is most proficient in playing regular checkers (or tic-tat-toe) will also be best at playing “give-away” (or cot-cat-tit in which the loser is made to have three of his symbols in a linear array), conventional wisdom or logic does ensure that by finding the optimal role for non-government, you can thereby define the proper role for government. Not taking the bull by the horns should at least give us a fresh perspective on the animal.

### ***Lincoln's Formula***

Some people begin the discussion of a concept by telling you how it is defined in Webster's dictionary. I follow the other fork and quote Abraham Lincoln. You may remember that the fellow who ran against Kennedy in 1960 quoted Lincoln on the proper role of government. It went something like the following.

***I believe the government should do only that which private citizens cannot do for themselves, or which they cannot do so well for themselves.***

One would think this is supposed to be say-

ing something. Let us try it in its converse form.

***left alone to do those activities which, on balance after netting out all advantages and disadvantages, it can best do.***

Obviously what I have stated is an empty tautology. It is no more helpful than the usual answer from Dorothy Dix to a perplexed suitor that merely says, "Look into your own heart to see whether you truly love the girl. And then after you have made up your mind, I am sure it will be the right decision."

But are these mere tautologies? Do the two Lincolnesque statements say exactly the same thing? There is a certain literal sense in which they can be interpreted to be saying the same thing. But we all bring to the words we hear certain preconceptions and attitudes.

I think Lincoln meant to imply in his formulation that there is needed a certain burden of proof that has to be established by anyone who proposes that the government do something. The balance of advantage in favor of the government must be something a little more than epsilon or you should stand with the ***status quo*** of private enterprise.<sup>1</sup>

Why? Lincoln does not say. But he takes it for granted that his listeners will understand that "personal liberty" is a value for its own sake and that some sacrifice of "efficiency" is worth making at the optimal point where activity is divided so as to maximize the total

---

**1 Actually most people will in fact tend to give the benefit of the doubt to the *status quo*-any *status quo*. In our day the government does many things it did not do in Lincoln's time. When one of these activities is brought open to question, its being the *status quo* could shift the burden' of proof on to the man who wants to bring the activity back into the private domain. I doubt that Lincoln would have agreed with this interpretation: in good Nineteenth Century fashion, he thought of private activity as natural unless the contrary was demonstrated.**

net advantage of “efficiency *cum* liberty” and vice versa.

The second statement that I have formulated also carries certain connotations. At a first hasty reading, it might suggest to some that the burden of proof is put on or against any proposal for *laissez faire* and individualism. And so it would be naturally construed in 1963 Soviet Russia.

After a second and more careful reading, it is seen to contain certain weasel words of qualification—such as “on balance,” “netting” and “advantages” and “disadvantages.” So interpreted, it can be made consistent with any desired emphasis on liberty as well as efficiency. So interpreted it could suffice for Stalin or Rousseau, for Keyserling or Friedman. And yet, even when almost completely emptied of its meaningful content, my formulation is left with a subtle connotation. It says, there are no absolutes here. The subject is an open one—open for debate and open to compromise. At some terms-of-trade, efficiency can be traded off against liberty. (Of course, Lincoln has already implied this, but not quite so strongly.)

### ***Overture to the Program***

So much for introduction. My Act I has prepared the way for what is to follow. In Act II, I want to examine the conditions under which efficiency is realizable by free enterprise or *laissez faire*. This is familiar ground, but too familiar and needs reexamination.

Then in Act III, I want to raise some questions about the notion that absence of government means increase in “freedom.” Is “freedom” a simply quantifiable magnitude as much libertarian discussion seems to presume? In case the time-clock catches me somewhere in Act II, let me give you a hint of the kind of thing I have in mind: Traffic lights coerce me and limit my freedom, don’t they? Yet in the midst of a traffic jam on the unopen road, was I really “free” before there

were lights? And has the algebraic total of freedom, for me or the representative motorist or the group as a whole, been increased or decreased by the introduction of well-engineered Stop Lights? Stop Lights, you know, are also Go Lights.

Then I shall conclude on what may seem a nihilistic note, but which I hope is actually a liberating one.

### **Technical Requirements for Competitive Optimality**

Consider a society with limited resources. Let certain facts about technology be "known" (in varying degrees). Let there be more than one person, so that we can speak of society. Let people have their tastes and values. And if you like, let there be one or more sets of ethical beliefs in terms of whose norms various situations can be evaluated and ordered.

What I have now specified is so terribly general. Yet already I have been guilty of tremendous idealization and abstraction in comparison with any real life situation.

To some observers, none of the above admits of quantification. It is all quality, quality, quality. There is a possible utopia; there are a variety of actualities; one contemplates these as a whole, and reacts to them. And that's it. Such observers, patently, have little use for economics or economists.

Many observers, however, will note that one grain of sugar is much like another and rather different from grains of salt or Norwegian sweaters. Quantification is, so to speak, rearing its idealized head. Then one notes that five fingers and one nose tend to go together, and by a long chain of not-too-cogent arguments there emerges **Cogito, ergo sum** rather than Cogitamw, ergo sumus. Now individualism has reared its single head. And if I-or should it be said "we"?-can coin an Irish Bull, there is almost an anthropomor-

phic fallacy in considering that individuals exist in the sense that atoms exist.

Now, to save time, we plunge into heroic assumptions.

1. ***Each person's tastes (and values) depend only upon his separable consumptions of goods. I.e., there must be no "consumption externalities."***

2. ***Strict constant-returns-to-scale prevails.***

3. ***Perfect competition, in senses too numerous to list here, prevails.***

4. ***The interpersonal distribution of property (inclusive of personal attributes) is ethically correct initially or is to be made so by ideal lump-sum transfers of a perfectly non-distorting type,***

Then, and only then, has it been rigorously proved that perfect competitive equilibrium is indeed optimal. So strict are these conditions that one would have thought that the elementary consideration that a line is infinitely thinner than a plane would make it a miracle for these conditions to be met. Real life optimality, or an approach to it, would seem to cry out-not merely for departure from *laissez faire*-but for never having been remotely near to *laissez faire*. Yet, you might almost say by accident, our world is not galaxies away from this thin line.

Lawrence J. Henderson, a distinguished physiologist and philosopher at Harvard in my day, saw far beyond Darwinian evolution in which selection led to individuals that possessed fitness for the environment. He wrote a charming book on ***The Fitness of the Environment***. For example, life as we know it depends critically on the peculiar properties that water happens to have (with, I believe, only ammonia as a possible substitute). How remarkable that one planet should have the temperature in that special range where water

is liquid! This planet got selected for its suitability to sustain life.

I say how miraculous that Victorian England came anywhere near the homogeneity-of-the-first-degree production conditions that perfect competition truly needs. If all production functions were homogeneous of degree or 3.14159... – and why shouldn't they be? – George Stigler would be out of work; he would be a brewer or a Nobel Prizeman in physics.

And note this. We each belong to many circles: The U.S.A., the Elks, the Samuelson family, the office pool, etc. In almost none of these relationships is the organizing principle that of decentralized competitive pricing. Let Abraham Lincoln ponder over that one.

### ***The Nature of Freedom***

But enough of these technicalities. Let me repeat some reflections on freedom that I presented recently at a conference on Individualism in Twentieth Century America held at the University of Texas.<sup>2</sup>

Adam Smith, our patron saint, was critical of state interference of the pre-Nineteenth Century type. And make no mistake about it: Smith was right. Most of the interventions into economic life by the State were then harmful both to prosperity and freedom. What Smith said needed to be said. In fact, much of what Smith said still needs to be said: Good intentions by government are not enough; acts do have consequences that had better be taken into account if good is to follow. Thus, the idea of a decent real wage is an attractive one. So is the idea of a low interest rate at which the needy can borrow. None the less the attempt by law to set a minimum real wage at a level much above the going market rates,' or to set a maximum interest rate for small loans at what seem like reason-

---

<sup>2</sup> P. A. Samuelson, "Modern Economic Realities and Individualism," November 30, 1962, to appear in *The Texas Quarterly*. This is an adapted excerpt.

able levels, inevitably does much harm to precisely the people whom the legislation is intended to help. Domestic and foreign experience-today, yesterday and tomorrow-bears out the Smithian truth. Note that this is not an argument against *moderate* wage and interest fiats, which may improve the perfection of competition and make businessmen and workers more efficient.

Smith himself was what we today would call a pragmatist. He realized that monopoly elements ran through *laissez faire*. When he said that Masters never gather together even for social merriment without plotting to raise prices against the public interest, he anticipated the famous Judge Gary dinners at which the big steel companies used to be taught what every oligopolist should know. Knowing the caliber of George III's civil service, Smith believed the government would simply do more harm than good if it tried to cope with the evil of monopoly. Pragmatically, Smith might, if he were alive today, favor the Sherman Act and stronger anti-trust legislation, or even public utility regulation generally.

### ***The Invisible Hand Again***

One hundred per cent individualists skip these pragmatic lapses into good sense and concentrate on the purple passage in Adam Smith where he discerns an Invisible Hand that leads each selfish individual to contribute to the best public good. Smith had a point; but he could not have earned a passing mark in a Ph.D. oral examination in explaining just what that point was. Until this century, his followers-such as Bastiat-thought that the doctrine of the Invisible Hand meant one of two things: (a) that it produced maximum feasible total satisfaction, somehow defined; or (b) that it showed that anything which results from the voluntary agreements

of uncoerced individuals must make them better (or best) off in some important sense.

Both of these interpretations, which are still held by many modern libertarians, are wrong. They neglect Assumption 4 of my earlier axioms for non-government. This is not the place for a technical discussion of economic principles, so I shall be very brief and cryptic in showing this.

First, suppose some ethical observer—such as Jesus, Buddha, or for that matter, John Dewey or Aldous Huxley—were to examine whether the total of social utility (as that ethical observer scores the deservingness of the poor and rich, saintly and sinning individuals) was actually maximized by 1860 or 1962

He might decide that a tax placed upon yachts whose proceeds go to cheapen the price of insulin to the needy might increase the total of utility. Could Adam Smith prove him wrong? Could Bastiat? I think not.

Of course, they might say that there is no point in trying to compare different individuals' utilities because they are incommensurable and can no more be added together than can apples and oranges. But if recourse is made to this argument, then the doctrine that the Invisible Hand maximizes total utility of the universe has already been thrown out the window. If they admit that the Invisible Hand will truly maximize total social utility **provided the state intervenes so as to make the initial distribution of dollar votes ethically** proper, then they have abandoned the libertarian's position that individuals are not to be coerced, even by taxation.

In connection with the second interpretation that anything which results from voluntary agreements is in some sense, ***ipso facto***, optimal, we can reply by pointing out that when I make a purchase from a monopolistic octopus, that is a voluntary act: I can always

go without alka-seltzer or aluminum or nylon or whatever product you think is produced by a monopolist. Mere voluntarism, therefore, is not the root merit of the doctrine of the Invisible Hand; what is important about it is the system of checks and balances that comes under perfect competition, and its measure of validity is at the technocratic level of efficiency, not at the ethical level of freedom and individualism. That this is so can be seen from the fact that such socialists as Oscar Lange and A. P. Lerner have advocated channeling the Invisible Hand to the task of organizing a socialistic society efficiently.

### ***The Impersonality of Market Relations***

Just as there is a sociology of family life and of politics, there is a sociology of individualistic competition. It need not be a rich one. Ask not your neighbor's name; enquire only for his numerical schedules of supply and demand. Under perfect competition, no buyer need face a seller. Haggling in a Levantine bazaar is a sign of less-than-perfect competition. The telephone is the perfect go-between to link buyers and sellers through the medium of an auction market, such as the New York Stock Exchange or the Chicago Board of Trade for grain transactions. Two men may talk hourly all their working lives and never meet.

These economic contacts between atomistic individuals may seem a little chilly or, to use the language of wine-tasting, "dry." This impersonality has its good side. Negroes in the South learned long ago that their money was welcome in local department stores. Money can be liberating. It corrodes the cake of custom. Money does talk. Sociologists know that replacing the rule of status by the rule of contract loses something in warmth; it also gets rid of some of the bad fire of olden times.

Impersonality of market relations has another advantage, as was brought home to many "liberals" in the McCarthy era of

American political life. Suppose it were efficient for the government to be the one big employer. Then if, for good or bad, a person becomes in bad odor with government, he is dropped from employment, and is put on a black list. He really then has no place to go. The thought of such a dire fate must in the course of time discourage that freedom of expression of opinion which individualists most favor.

Many of the people who were unjustly dropped by the federal government in that era were able to land jobs in small-scale private industry. I say small-scale industry because large corporations are likely to be chary of hiring names that appear on anybody's black list. What about people who were justly dropped as security risks or as members of political organizations now deemed to be criminally subversive? Many of them also found jobs in the anonymity of industry.

*Wheat Growers Anonymous*

Many conservative people, who think that such men should not remain in sensitive government work or in public employ at all, will still feel that they should not be hounded into starvation. Few want for this country the equivalent of Czarist Russia's Siberia, or Stalin Russia's Siberia either. It is hard to tell on the Chicago Board of Trade the difference between the wheat produced by Republican or Democratic farmers, by teetotalers or drunkards, Theosophists or Logical Positivists. I must confess that this is a feature of a competitive system that I find attractive.

We have seen how a perfect model of competitive equilibrium might behave if conditions for it were perfect. The modern world is not identical with that model. As mentioned before, there never was a time, even in good Queen Victoria's long reign, when such conditions prevailed.

Whatever may have been true on Turner's

frontier,<sup>3</sup> the modern city is crowded. Individualism and anarchy will lead to friction. We now have to coordinate and cooperate. Where cooperation is not fully forthcoming, we must introduce upon ourselves coercion. When we introduce the traffic light, we have by cooperation and coercion, although the arch individualist may not like the new order, created for ourselves greater freedom.

The principle of unbridled freedom has been abandoned; it is now just a question of haggling about the terms. On the one hand, few will deny that it is a bad thing for one man, or a few men, to impose their wills on the vast majority of mankind, particularly when that will involves terrible cruelty and terrible inefficiency. Yet where does one draw the line? At a 51 per cent majority vote? Or, should there be no actions taken that cannot command unanimous agreement—a position which such modern exponents of libertarian liberalism as Professor Milton Friedman are slowly evolving toward. Unanimous agreement? Well, virtually unanimous agreement, whatever that will come to mean.

The principle of unanimity is, of course, completely impractical. My old friend Milton Friedman is extremely persuasive, but not even he can keep his own students in unanimous agreement all the time. Aside from its practical inapplicability, the principle of unanimity is theoretically faulty. It leads to con-

---

**3 Density of population produces what economists recognize as external economies and diseconomies. These "neighborhood effects" are often dramatized by smoke and other nuisances that involve a discrepancy between private pecuniary costs and social costs. They call for intervention: zoning, flats, planning, regulation, taxing, and so forth.**

**But too much diluteness of the gas also calls for social interfering with laissez faire individualism. Thus, the frontier has always involved sparse populations in need of "social overhead capital." In terms of technical economics jargon this has the following meaning: when scale is so small as to lead to unexhausted increasing returns, free pricing cannot be optimal and there is a prima facie case for cooperative intervention.**

tradictory and intransitive decisions. By itself, it argues that just as society should not move from laissez faire to planning because there will always be at least one objector-Friedman if necessary-so society should never move from planning to freedom because there will always be at least one objector. Like standing friction, it sticks you where you are. It favors the status **quo**. And the status **quo** is certainly not to the liking of arch individualists. When you have painted yourself into a corner, what can you do? You can redefine the situation, and I predicted some years ago that there would come to be defined a privileged status **quo**, a set of natural rights involving individual freedoms, which alone requires unanimity before it can be departed from.

At this point the logical game is up. The case for "complete freedom" has been begged, not deduced. So long as full disclosure is made, it is no crime to assume your ethical case. But will your product sell? Can you persuade others to accept your axiom when it is in conflict with certain other desirable axioms?

### ***Not by Reasoning Alone***

The notion is repellant that a man should be able to tyrannize over others. Shall he be permitted to indoctrinate his children into any way of life whatsoever? Shall he be able to tyrannize over himself? Here, or elsewhere, the prudent-man doctrine of the good trustee must be invoked, and in the last analysis his peers must judge-i.e., a committee of prudent peers. And may they be peers tolerant as well as wise!

Complete freedom is not definable once two wills exist in the same interdependent universe. We can sometimes find two situations in which choice A is more free than choice B in apparently every respect and at least as good as B in every other relevant sense. In such singular cases I will certainly

throw in my lot with the exponents of individualism. But few situations are really of this simple type; and these few are hardly worth talking about, because they will already have been disposed of so easily.

In most actual situations we come to a point at which choices between goals must be made: do you want this kind of freedom and this kind of hunger, or that kind of freedom and that kind of hunger? I use these terms in a quasi-algebraic sense, but actually what is called "freedom" is really a vector of almost infinite components rather than a one-dimensional thing that can be given a simple ordering.

Where more than one person is concerned the problem is thornier still. My privacy is your loneliness, my freedom to have privacy is your lack of freedom to have company. Your freedom to "discriminate" is the denial of my freedom to "participate." There is no possibility of unanimity to resolve such conflicts.

The notion, so nicely expounded in a book I earnestly recommend to you, Milton Friedman, *Capitalism and Freedom* (Chicago, 1962), that it is better for one who deplores racial discrimination to try to persuade people against it than to do nothing at all-but, failing to persuade, it is better to use no democratic coercion in these matters-such a notion as a **general** precept is arbitrary and gratuitous. Its arbitrariness is perhaps concealed when it is put abstractly in the following form: If free men follow Practice X that you and some others regard as bad, it is wrong in principle to coerce them out of that Practice X; in principle, all you ought to do is to try to persuade them out of their ways by "free discussion." One counter-example suffices to invalidate a general principle. An exception does not prove the rule, it disproves it. As a counter-example I suggest we substitute for "Practice X" the "killing by gas of 5 million

suitably-specified humans.” Who will agree with the precept in this case?

Only two types would possibly agree to it: (1) those so naive as to think that persuasion can keep Hitlers from cremating millions; or (2) those who think the status *quo*, achievable by what can be persuaded, is a pretty comfortable one after all, even if not perfect. When we are very young we fall into the first category; when old and prosperous, into the second; perhaps there is a golden age in between. The notion that any form of coercion whatever is in itself so evil a thing as to outweigh all other evils is to set up freedom as a monstrous shibboleth. In the first place, absolute or even maximum freedom cannot even be defined unambiguously except in certain special models. Hence one is being burned at the stake for a cause that is only a slogan or name. In the second place, as I have shown, coercion can be defined only in terms of an infinite variety of arbitrary alternative status *quo*.

The precept “persuade-if-you-can-but-in-no-case-coerce” can be sold only to those who do not understand what it is they are buying. This doctrine sounds a little like the “Resist-Not-Evil” precepts of Jesus or Gandhi. But there is absolutely no true similarity between the two doctrines, and one should not gain in palatability by being confused with the other.

### ***Marketplace Coercion, or The Hegelian Freedom of -Necessity***

Libertarians fail to realize that the price system is, and ought to be, a method of coercion. Nature is not so bountiful as to give each of us all the goods he desires. We have to be coerced out of such a situation, by the nature of things. That is why we have policemen and courts. That is why we charge prices, which are high enough relative to limited money to limit consumption. The very term

“rationing by the purse” illustrates, the point. Economists defend such forms of rationing, but they have to do so primarily in terms of its efficiency and its fairness. Where it is not efficient—as in the case of monopoly, externality, and avoidable uncertainty—it comes under attack. Where it is deemed unfair by ethical observers, its evil is weighed pragmatically against its advantages and modifications of its structure are introduced.

Classical economists, like Malthus, always understood this coercion. They recognized that fate dealt a hand of cards to the worker’s child that was a cruel one, and a favorable one to the “well-born.” John Stuart Mill in a later decade realized that mankind, not Fate with a capital F, was involved. Private property is a concept created by and enforced by public law. Its attributes change in time and are man-made, not Mother-Nature-made.

Nor is the coercion a minor one. Future generations are condemned to starvation if certain supply-and-demand patterns rule in today’s market. Under the freedom that is called *laissez faire*, some worthy men are exalted; and so are some unworthy ones.<sup>4</sup> Some unworthy men are cast down; and so are some worthy ones. The Good Man gives the system its due, but reckons in his balance its liabilities that are overdue.

Anatole France said epigrammatically all that needs to be said about the coercion implicit in the libertarian economics of *laissez faire*. “How majestic is the equality of the Law, which permits both rich and poor alike, to sleep under the bridges at night.” I believe no satisfactory answer has yet been given to this. It is certainly not enough to say, “We made our own beds and let us each lie in

---

<sup>4</sup> “I am kept from attending college because my family is \_\_\_\_\_.” To discern the coercion implicit in a competitive pricing system, note that any of the following can be substituted into the blank space: Negro, bourgeois, Jewish-or poor.

them.” For once Democracy rears its pretty head, the voter will think: “There, but for the Grace of God and the Dow-Jones averages, go 1.” And he will act.

The whole matter of proper government policy involves issues of ethics, coercion, administration, incidence, and incentives that cannot begin to be resolved by semantic analysis of such terms as “freedom,” “coercion,” or “individualism.”

### **A Final Law**

At the end I must lay down one basic proposition. If you remember only one thing of what I say, let it be this. If you don't remember anything of what I say, let this be the last thing you forget.

***There are no rules concerning the proper role of government that can be established by a priori reasoning.***

This may seem odd to you: for to state the rule that there are no rules may sound like a self-contradiction, reminiscent of the breakfast cereal box that contains an exact picture of itself . . . of itself . . . of itself. . . . However, no Bertrand Russell theory of types is involved here. For, my proposition-call it Samuelson's Law if you like-does not claim to be established by Reason, but merely to be a uniformity of experience. Whose experience? My experience, and that of every (I mean, almost every) man of experience.

If I am wrong it will be easy to prove me wrong: namely, by stating one valid non-trivial proposition about the proper role of government derived by cogent ***a priori*** reasoning alone. After I have digested it, I shall have no trouble in eating my own words.

---

5 If one disagrees with Malthus and France and thinks that we all had equal opportunities and *have made the beds we are to lie in, our judgment of laissez faire improves-as it should. But note it is because of its fine welfare results, and not because the kind of freedom embodied in it is the end-all of ethics.*

Let me illustrate by a few rules that have been proposed and that will pass neither the test of experience nor of logic.

**JEFFERSON'S LEMMA:** That *government is best which governs least.*

I waive the formal objection that there exists no least positive real number. Just as the only good Injun is alleged to be a dead one, this says that the best government would be one which committed suicide. By a social compact and constitution, anarchy would be proclaimed. Not even being sure just what is meant by the chaos the Bible tells us existed before Genesis (white-noise chaos? of Gaussian or Pareto-Levy type?), I am certainly not sure just what anarchy is--although I have an idea what it isn't. Taken *literally*, no one--certainly not Jefferson--will buy this dictum of zero government. Such sweeping rules are like soap bubbles: Literally take them and you find nothing in your hands to take. In this they differ from the Pythagorean or other theorem about Euclidean space derived by logic: Imagine saying "I believe the three angles of a plane triangle add up to 180°--but of course, not to the degree of taking the belief literally."

Here is another proposed law.

**ACTON'S CONJECTURE:** "*All power corrupts, and absolute power corrupts absolutely.*"

Of course Lord Acton didn't say quite this in his letter to Bishop Creighton; nor did he profess to deduce it *a priori*. Yet, since Lord Acton was unfamiliar with the anthropology of the Samoan islands, neither he nor anyone else, with the possible exception of Margaret Meade, can testify to its universal correctness. Even within the experience of the history known to 19th Century Cambridge Dons, this cannot be established unless the words "corrupt" and "power" be defined tautologically.

The Spearman rank correlation coefficient between the power of rulers and their abusive rulings is certainly not +1; to say the correlation is positive in a wide sampling of history is to say something interesting, but this is the kind of non-sweeping uniformity which I am pleading for in this lecture as against dogmatic arguments from the nature of things.

Here is another branch whose graft never took on the tree of wisdom.

COLIN CLARK'S LAW: *The role of government must be held below a ceiling of 25 per cent of the national income.*

This is not a two-halves truth or even, I fear, a 25 per cent truth. A number of nations whom we all point to as having accomplished miracles in the last decade never had the erudition to know of Clark's Law or the instinctive good sense to desist from violating it. That Western Germany, the showplace of free enterprise, should collect 34 per cent of her national income for taxes is as shocking and thoughtless a violation of Clark's natural law as that a column of mercury should, after 30 vertical inches, neglect to remember that Nature abhors a vacuum.

I could go on. But why do so? My point is made: *No a priori* reasoning has yet been found to demarcate the role of non-government and of government. However, I must not be dogmatic. Having found cause to reject laws of Jefferson, Acton, and Clark, I must out of courtesy and caution reserve judgment on any laws that Professor Stigler may unveil. For, as I learned when our friendship began long ago, George Stigler can do anything-anything but be boring.

