

Rejoinder to Critics of Laissez-Faire Capitalism

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IN BLOCK AND BARNETT (2005) WE MAKE the case that the best way to promote peace and prosperity, to protect the environment and fight poverty is to rein in government to the greatest extent possible. Each of our critics (Batten and Szilagy 2005; Higgins 2005; Jonker 2005) challenges this thesis, and we consider them in the order they appear in the journal issue.

Batten and Szilagy

These authors exhibit a bit of confusion about Mises' views on limited government *vis-à-vis* anarcho-capitalism. They (Batten and Szilagy 2005: 43) claim Mises takes a position 'opposing taxes' and sees 'none at all' as the proper role for government. Not so, not so. Mises saw a very limited, but important, role for the state. These authors maintain that we favour a 'stateless social order'. But this is difficult

to reconcile with our statement (Block and Barnett 2005: 32) that 'coercion is occasionally necessary'.¹

We object to their claim that 'a powerful corporation may impose . . .' In the completely free society, firms can only have moral and economic power (ability to buy and sell, build, etc.) but not the political power necessary to 'impose'. Even now, Microsoft, Wal-Mart, and so on, have no ability to control others against their will at all; they have only great wealth, for as long, that is, as they continue to satisfy customers. Otherwise, they would go the way of the Nash Automobile Company, United Shoe Manufacturers and Texaco, Pan American World Airways and Braniff International Airways.² The only politically 'powerful corporations' at loose at present are those that are given special favours from the state; under *laissez-faire*, there would be no such thing.

Batten and Szilagy (2005: 44) claim that 'markets are rarely, if ever, efficient'.

1 The first-mentioned author of the present article greatly regrets this language, as he, indeed, favours a completely stateless society. But Batten and Szilagy (2005: 43) still err in attributing this position to Block and Barnett (2005).

2 www.bankruptcydata.com/Research/15_Largest.htm

Compared with what, we should like to know? To government? No one who has lived through hurricane Katrina and her aftermath could make any such statement. Similarly, the 'recent corporate scandals involving WorldCom and Enron' are eloquent testimony to the *health* of markets. Where are these companies now? Nowhere! The same, unfortunately, cannot be said for governments that waste and steal thousands of times more money than those petty thieves. Moreover, when we hear the phrase 'stakeholders' we reach to check our wallets. Customers, neighbours, suppliers, employees and so on simply have no rights to dispose of property they do not own. Suppose we claimed to be 'stakeholders' in the houses or automobiles now owned by Batten and Szilagyi. Such talk is an affront to a civilised order.

Our critics (2005: 44) make much of the fact that 'transaction costs, differences in tax treatment . . . product illiquidity and an inability to arbitrage between similar products all provide explanations for the fact that markets are rarely, if ever, efficient'. Again, we ask for the first, third and fourth of these, compared with what? The state? It cannot be denied that these so-called market 'failures' provide profit opportunities for those entrepreneurs who successfully address them. What more can be done? As for the second, this, surely, is a logical howler, since it is the government, not the market, that engages in taxation. Transactions are real costs in the sense that they involve the use of resources. To claim that these costs explain market inefficiency is as silly as thinking that any other cost (for example, for land, labour or capital) accounts for market inefficiency. Central planners, too, would have to (but would not be able to) reckon with transaction costs. The same goes for product illiquidity; this too is a fact of nature that any economic system must deal with. As for 'inability to arbitrage', market participants are the arbitrageurs par excellence (Block 1983,

2006). Unlike their statist counterparts, when they fail, they are forced into bankruptcy; thus those who remain tend to be very efficient.

These authors could as easily have mentioned the 'hold-out problem'. We see what happens when the government gets involved in solving that type of 'problem'. Perhaps they have not heard of the Kelo case and the Lost Liberty Hotel project?³

Kelo (2005) was a case involving the use of eminent domain to condemn private property, not for so-called 'public use' (roads, military installations, lighthouses) but for the private use of different persons (the Pfizer Corporation and several others), on the ground that tax revenues could thereby be enhanced since the new owners would build a more valuable project. As such, it generated a fire storm of outrage. The Lost Liberty Hotel was an exercise in poetic justice; a group of libertarians are now in the process of attempting to seize, through eminent domain, the private home of United States Supreme Court Associate Justice David Souter, one of those responsible for Kelo, and build a hotel there instead. Their ostensible reason is to thereby raise tax revenues; but the underlying reason is to do to Souter what he did to Suzette Kelo and her neighbours.

It is more than passing curious that these authors highlight Beach and O'Driscoll (2005: 45). They do so in criticism of the fact that in this paper of ours we focus only on 'the single factor (property rights)' (Batten and Szilagyi 2005: 45), instead of engaging in a multi-factor analysis. But not every paper can deal with every issue. Batten and Szilagyi, further, do not seem to realise that one of the present authors has written a similar book on freedom indices (Gwartney *et al.* 1996) even though this was cited in Block and Barnett (2005: 40). Batten and Szilagyi (2005: 47) criticise us on the ground that 'those countries with interventionistic government . . . all have the highest individual incomes'. First, this is contradicted by Gwartney *et al.* 1996. Second, even if this was the case,

3 en.wikipedia.org/wiki/Lost_Liberty_Hotel

which it is not, this would be *despite* government interventionism, not because of it.

Higgins

Higgins (2005: 51) starts off by citing *The Economist's* (1994) claim that 'income inequality has increased the most . . . where free-market policies have been developed and implemented the most vigorously'. Time series data, unless they are of long duration, are relatively unimportant; the relationship between economic freedom and income inequality will, of course, fluctuate. Of greater moment is cross-sectional analysis and, here, it is clear that there is a negative relationship between the two variables (Gwartney *et al.* 2000: 17). That is, markets promote income *equality*. In addition to the empirical evidence buttressing this claim, it is important to understand *why* this should be so: because it is apodictically necessary that *all trades* be mutually beneficial, at least in the *ex ante* sense, since they are voluntary. Since free enterprise consists of no more and no less than all such commercial interactions (buying, selling, hiring, etc.), it should not be the occasion of surprise that markets would tend to reduce income inequality. Yes, Bill Gates made a bundle, but in doing so he *enriched* all of his many customers. The market is a positive-sum game. In contrast, when a politician or bureaucrat prospers, he does so at the *expense* of the long-suffering taxpayer, as this is a coercive, zero-sum game. The greatest disparities between the privileged and the masses arise in dictatorships in which there are no secure property rights. In those societies the only equality is among the impoverished masses.

Higgins also talks about 'trust'. And properly so. But where is this crucial element of civilisation more likely to prosper? In a society based on mutual agreed interaction, or in one based on coercive relationships? To ask this question is to

answer it. A similar analysis applies to association. If it is free, if people are not forced to associate with others against their will, social co-operation and trust will be supported. If it is forced, as, for example, through 'affirmative action', it will be undermined (Sowell 1982).

Jonker

Jonker (2005: 54) asks: Why does our piece 'evoke such ferocious emotions?' One answer is: 'speak for yourself'. Speaking for ourselves, while we sharply disagree with people such as Galbraith, Keynes, Rawls, Marx and their ilk, some of us manage to restrain our 'ferocious emotions'. Another answer is: sociobiology or evolutionary psychology. For millions of years our species lived in very small groups. There, explicit or direct co-operation was the only kind that could occur. We are thus 'hard-wired' to accept charity, 'kindness and goodness'. But we now live in a society with billions of people. Here, the only possibility for human co-operation is implicit or indirect: that is, through markets. The invisible hand of Adam Smith eschews 'kindness and goodness' and substitutes for these qualities selfishness and greed, at least in the market, narrowly construed. Of course, businessmen, in their role as private citizens, can and do give generously to charity. When they do so as a corporation, for other than defensive purposes (to ward off regulations aimed at them), they are doing so with other people's money. That is called theft. We assume that they do not own 100% of the corporation nor that there are but a few shareholders and all agree. Nor does it apply to partnerships where the partners agree. But some of us, those who are not sophisticated in economics, are appalled at the prospect that commerce should be largely motivated by self-interest.

Jonker (2005: 54) takes it as a given that modern 'complexity' requires some sort of central planning, or at least a spurning of the simple free-enterprise system. He errs

in thinking that 'going back' to a prior system of laws and institutions is 'outmoded if not dangerous'. It all depends on the specifics of the case. Society has not continuously progressed; there have been fits and starts. Do we not want to 'go back' to the time of Mozart, Beethoven and Bach? Must we necessarily prefer atonal and rap 'music' just because these things came later in time? Is Jackson Pollock really to be preferred to Rembrandt? Attack Adam Smith's ideal of limited government if you will, but it is highly problematic to do so merely because this more closely occurred centuries ago.

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