

## CHAPTER 1

# Economics Versus Politics

IT MAY BE that wary beasts of the forest come around to accepting the hunter's trap as a necessary concomitant of foraging for food. At any rate, the presumably rational human animal has become so inured to political interventions that he cannot think of the making of a living without them; in all his economic calculations his first consideration is, what is the law in the matter? Or, more likely, how can I make use of the law to improve my lot in life? This may be described as a conditioned reflex. It hardly occurs to us that we might do better operating under our own steam, within the limits put upon us by nature, and without political restraints, controls, or subventions. It never enters our minds that these interventionary measures are placed in our path, like the trap, for purposes diametrically opposed to our search for a better living. We automatically accept them as necessary to that purpose.

And so it has come to pass that those who write about economics begin with the assumption that it is a branch of political science. Our current textbooks, almost without exception, approach the subject from a legal standpoint: how do men make a living under the prevailing laws? It follows, and some of the books admit it, that if the laws change, economics must follow suit. It is for that reason that our college

curricula are loaded down with a number of courses in economics, each paying homage to the laws governing different human activities; thus we have the economics of merchandising, the economics of real-estate operations, the economics of banking, agricultural economics, and so on. That there is a science of economics which covers basic principles that operate in all our occupations, and have nothing to do with legislation, is hardly considered. From this point of view it would be appropriate, if the law sanctioned the practice, for the curricula to include a course on the economics of slavery.

Economics is not politics. One is a science, concerned with the immutable and constant laws of nature that determine the production and distribution of wealth; the other is the art of ruling. One is amoral, the other is moral. Economic laws are self-operating and carry their own sanctions, as do all natural laws, while politics deals with man-made and man-manipulated conventions. As a science, economics seeks understanding of invariable principles; politics is ephemeral, its subject matter being the day-to-day relations of associated men. Economics, like chemistry, has nothing to do with politics.

The intrusion of politics into the field of economics is simply an evidence of human ignorance or arrogance, and is as fatuous as an attempt to control the rise and fall of tides. Since the beginning of political institutions, there have been attempts to fix wages, control prices, and create capital, all resulting in failure. Such undertakings must fail because the only competence of politics is in compelling men to do what they do not want to do or to refrain from doing what they are inclined to do, and the laws of economics do not come within that scope. They are impervious to coercion. Wages

## ECONOMICS VERSUS POLITICS

and prices and capital accumulations have laws of their own, laws which are beyond the purview of the policeman.

The assumption that economics is subservient to politics stems from a logical fallacy. Since the State (the machinery of politics) can and does control human behavior, and since men are always engaged in the making of a living, in which the laws of economics operate, it seems to follow that in controlling men the State can also bend these laws to its will. The reasoning is erroneous because it overlooks consequences. It is an invariable principle that men labor in order to satisfy their desires, or that the motive power of production is the prospect of consumption; in fact, a thing is not produced until it reaches the consumer. Hence, when the State intervenes in the economy, which it always does by way of confiscation, it hinders consumption and therefore production. The output of the producer is in proportion to his intake. It is not wilfulness that brings about this result; it is the working of an immutable natural law. The slave does not consciously "lay down on the job"; he is a poor producer because he is a poor consumer.

The evidence is that economics influences the character of politics, rather than the other way around. A communist State (which undertakes to disregard the laws of economics, as if they did not exist) is characterized by its preoccupation with force; it is a fear State. The aristocratic Greek city-State took its shape from the institution of slavery. In the nineteenth century, when the State, for purposes of its own, entered into partnership with the rising industrial class, we had the mercantilist or merchant State. The Welfare State is in fact an oligarchy of bureaucrats who, in return for the perquisites and prestige of office, undertake to confiscate and redistribute production according to formulae of their own

imagination, with utter disregard of the principle that production must fall in the amount of the confiscation. It is interesting to note that all welfarism starts with a program of distribution—control of the market place with its price technique—and ends up with attempts to manage production; that is because, contrary to their expectations, the laws of economics are not suspended by their political interference, prices do not respond to their dicta, and in an effort to make their preconceived notions work they apply themselves to production, and there too they fail.

The imperviousness of economic law to political law is shown in this historic fact: in the long run every State collapses, frequently disappears altogether and becomes an archeological curio. Every collapse of which we have sufficient evidence was preceded by the same course of events. The State, in its insatiable lust for power, increasingly intensified its encroachments on the economy of the nation, causing a consequent decline of interest in production, until at long last the subsistence level was reached and not enough above that was produced to maintain the State in the condition to which it had been accustomed. It was not economically able to meet the strain of some immediate circumstance, like war, and succumbed. Preceding that event, the economy of Society, on which State power rests, had deteriorated, and with that deterioration came a letdown in moral and cultural values; men "did not care." That is, Society collapsed and drew the State down with it. There is no way for the State to avoid this consequence—except, of course, to abandon its interventions in the economic life of the people it controls, which its inherent avarice for power will not let it do. There is no way for politics to protect itself from politics.



## ECONOMICS VERSUS POLITICS

The story of the American State is instructive. Its birth was most auspicious, being midwifed by a coterie of men unusually wise in the history of political institutions and committed to the safeguarding of the infant from the mistakes of its predecessors. Apparently, none of the blemishes of tradition marked the new State. It was not burdened with the inheritance of a feudal or a caste system. It did not have to live down the doctrine of "divine right," nor was it marked with the scars of conquest that had made the childhood of other States difficult. It was fed on strong stuff: Rousseau's doctrine that government derived its powers from the consent of the governed, Voltaire's freedom of speech and thought, Locke's justification of revolution, and, above all, the doctrine of inherent rights. There was no regime of status to stunt its growth. In fact, everything was *de novo*.

Every precautionary measure known to political science was taken to prevent the new American State from acquiring the self-destructive habit of every State known to history, that of interfering with man's pursuit of happiness. The people were to be left alone, to work out their individual destinies with whatever capacities nature had endowed them. Toward that end, the State was surrounded with a number of ingenious prohibitions and limitations. Not only were its functions clearly defined, but any inclination to go beyond bounds was presumably restrained by a tripartite division of authority, while most of the interventionary powers which the State employs were reserved for the authorities closer to the governed and therefore more amenable to their will; by the divisive principle of *imperium in imperio* it was forever, presumably, deprived of the monopoly position necessary to a State on the rampage. Better yet, it was condemned to get along on a meager purse; its powers of tax-

ation were neatly circumscribed. It did not seem possible, in 1789, for the American State to do much in the way of interfering with the economy of the nation; it was constitutionally weak and off balance.

The ink was hardly dry on the Constitution before its authors, now in position of authority, began to rewrite it by interpretation, to the end that its bonds would loosen. The yeast of power that is imbedded in the State was in fermentation. The process of judicial interpretation, continued to the present day, was later supplemented by amendment; the effect of nearly all the amendments, since the first ten (which were written into the Constitution by social pressure), was to weaken the position of the several state governments and to extend the power of the central government. Since State power can grow only at the expense of social power, the centralization which has been going on since 1789 has pushed American Society into that condition of subservience which the Constitution was intended to prevent.

In 1913 came the amendment that completely unshackled the American State, for with the revenues derived from unlimited income taxation it could henceforth make unlimited forays into the economy of the people. The Sixteenth Amendment not only violated the right of the individual to the product of his efforts, the essential ingredient of freedom, but it also gave the American State the means to become the nation's biggest consumer, employer, banker, manufacturer, and owner of capital. There is now no phase of economic life in which the State is not a factor, there is no enterprise or occupation free of its intervention.

The metamorphosis of the American State from an apparently harmless establishment to an interventionary machine as powerful as that of Rome at its height took place within

## ECONOMICS VERSUS POLITICS

a century and a half; the historians estimate that the gestation of the greatest State of antiquity covered four centuries; we travel faster these days. When the grandeur of Rome was at its grandest, the principal preoccupation of the State was the confiscation of the wealth produced by its citizens and subjects; the confiscation was legally formalized, as it is today, and even though it was not sugar-coated with moralisms or ideologically rationalized, some features of modern welfarism were put into practice. Rome had its make-work programs, its gratuities to the unemployed, and its subsidies to industry. These things are necessary to make confiscation palatable and possible.

To the Romans of the times, this order of things probably seemed as normal and proper as it does today. The living are condemned to live in the present, under the prevailing conditions, and their preoccupation with those conditions makes any assessment of the historic trend both difficult and academic. The Romans hardly knew or cared about the "decline" in which they were living and certainly did not worry about the "fall" to which their world was riding. It is only from the vantage point of history, when it is possible to sift the evidence and find a cause-and-effect relationship, that a meaningful estimate of what was happening can be made. We know now that despite the arrogance of the State the economic forces that bear upon social trends were on the job. The production of wealth, the things men live by, declined in proportion to the State's exactions and interferences; the general concern with mere existence submerged any latent interest in cultural and moral values, and the character of Society gradually changed to that of a herd. The mills of the gods grind slow but sure; within a couple of centuries the deterioration of Roman Society was followed

by the disintegration of the State, so that it had neither the means nor the will to withstand the winds of historic chance. It should be noted that Society, which flourishes only under a condition of freedom, collapsed first; there was no disposition to resist the invading hordes.

The analogy suggests a prophecy and a jeremiad. But that is not within the scope of this essay, the hypothesis of which is that Society, Government, and the State are basically economic phenomena, that a profitable understanding of these institutions will be found in economics, not in politics. This is not to say that economics can explain all the facets of these institutions, any more than the study of his anatomy will reveal all the secrets of the human being; but, as there cannot be a human being without a skeleton, so any inquiry into the mechanism of social integrations cannot bypass economic law.

For reasons that will become apparent as we go along, it is necessary to digress from the main line of thought for one chapter, which will be devoted to an examination of two theories as to the origin of the State, one being the classical theory, the other being of more recent date.