

The Maker of Shortages

WHENEVER AND HOWEVER the State intervenes in the affairs of men, particularly their economic pursuits, a lessening of satisfactions ensues. The consequence of political intervention is on a par with that of a raid on the market place, say by a band of robbers: a depletion of the things men live by. We are talking of consequence, not of intent. The robber band makes no pretensions to character, while the State clothes its operations with a moral purpose, such as the promotion of the "general welfare"; but in both cases the sum total of consumable or capital goods is diminished. Society has less. Since the keystone of the social structure is man's everlasting struggle to avoid shortages and to achieve abundances, the shortage-producing consequence of the State's interventions stamp it as an antisocial institution. It must be classed with the robber band, and only its loud protestations of a moral purpose, which are generally believed because skepticism is likely to bring on discomfort, prevent its being so classed.

The first item on the agenda of the State is taxation, simply because the State could not exist without it. A tax is a compulsory exaction; it is not a voluntary payment for goods received or services rendered. In ancient times, before a regularized system obfuscated it, the nature of a tax was better

understood, for it frequently consisted of the lifting from the producer's premises of goods he had labored for in the expectation of enjoyment: his corn, cattle, or other accumulations. That was palpable evidence of the scarcity-producing nature of taxation. No mutation occurs when the tax is collected in the form of money; it is still part of what the producer has labored for in the hope of satisfying his desires. It is shoes, bread, entertainment.

Taxation not only robs the market place of consumable goods, which is the true measure of a nation's economy, but it also reduces the productive capacity of Society by its absorption of savings, or capital. It is obvious that the individual cannot save what he does not have. And since savings become investments in productive machinery, the lack of savings means a shortage of those instruments that make abundance possible. Thus, taxation deprives the consumer of immediate satisfactions and lessens the possibility of plenty in the future. In both effects, taxation is a shortage-creating institution, and that is not what men have in mind when they merge themselves into Society.

Idolators of the State are wont to counter this fact with the observation that productive effort seems to increase with an increase in taxation, inferring that the activities of the State are economically beneficial. This is equivalent to saying that men work to pay taxes and that the bigger the tax load the greater their productivity. If this were so, then the wealthiest and healthiest economy would be achieved by the State's confiscation of everything produced—which is the claim of communism. Yet the production figures that leak through from communist countries add up to economies of scarcity, to an abundance of shortages. And historians tell us that the continuing and mounting exactions of the Roman

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emperors caused a lack of interest in productive enterprise, so that the net income from taxes decreased and the emperors resorted to conquest and loot to replenish their coffers; when conquest proved unprofitable and production did not yield enough to pay expenses, the State collapsed.

The argument of the Statists rests on the production figures of this country, which show that the mounting tax load has been accompanied by an increase of production. But this is a coincidence, easily explainable, and not a cause-and-effect relationship. It indicates that the American tax load has not yet reached the point of diminishing returns. The two thirds of his earnings that the American is allowed to keep is still an inducement to try to maintain and better his standard of living. A man will work hard to repair the damage caused by a storm, or to replenish what the thief has taken from his safe, but this does not mean that the storm or the thief improves his economy. What he has lost by depredation or accident is a loss, not a gain. The fuel of productive energy is not taxes, but the inner compulsion of the individual to improve his lot.

Granting all that, does not the State perform services which indirectly aid in producing abundances? Does it not return to Society something of value for what it takes?

Foremost among the services which the State claims to render Society is its protection from other predatory States. This is a considerable service, to be sure. In former times, when political morals were differently phrased, the State prosecuted war with the avowed purpose of adding glory to its name by way of real-estate acquisitions, to say nothing of the ancillary purpose of bringing civilization to barbarians; Napoleon's avowed ambition was to impose on his victims

the blessing of "liberty, fraternity, equality." This is out of fashion these days; wars are now waged to protect the nation from the aggressor, which is the name each side gives to the other. However, it is still *de rigueur* for the victorious State to add to its exploitable territory at the expense of the conquered. But we are not here concerned with the aims of war, nor with its causes or its avoidability; what interests us is the effect on Society's economy. Does the housewife have more in her pantry, or less, as a result of the glorious adventure? Does Society acquire shortages or abundances? What is the economic profit of the military protection afforded by the State?

Putting this economic consideration aside, there is the inescapable fact that paying homage to a foreigner goes against the grain of tradition. Until he made his accommodation to the inevitable, no decent Saxon would have any truck with his Norman overlords, and the Indians always resented the British *raj*. It is this abhorrence of rule by foreigners that makes it easier to stir up a revolt against a State so composed than against an indigenous one. Yet, on balance, are the Indians better off, economically, under their own State than when the British ruled the roost? And the Canadians, who did not emulate the Americans in getting rid of the British Crown, nevertheless enjoy a comparable standard of living. That is to say, regardless of the nationality of the State, Society has to make its way by the usual process of laying labor to raw materials, and the vaunted protection of the State neither promotes nor facilitates that process.

Since Society puts so high a value on independence from a foreign State, it should not demur at the cost of maintaining this independence. One must pay for what one wants. However, when we examine the most approved method of financ-

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ing war we find that it is based on a general reluctance to foot the bill. Every war is fought with current production—there is no way of shooting off guns that have not yet been made or of feeding soldiers with food that will be raised by the next generation—and in a real sense every war is conducted on a pay-as-you-fight basis. But the producers of the means of war seem to put a low value on victory, for they demand receipts for what is taken from them to prosecute the war, receipts which become a claim on future production, not only as to their face value but also as to the interest which patriotism demands; it is possible that if the State raised all the costs of war by taxes, issued no bonds or even issued only non-interest-bearing bonds, the war might be called off, which would be proof enough that Society puts little worth on its political purposes. The economic consequence of the most approved method of financing wars is that a lien on the future production of the nation is established, and nearly always it is a permanent lien. That is, for all time to come, or as long as the State stays in business, the housewives' pantries must contribute to the cost of a nation's past "protective" wars.

But war, and the preparations for it, is attended with a charge that has nothing to do with protection and is a load that increasingly hampers Society in its search for a better life. That is the power which the State acquires during war and does not relinquish when it is over. When the enemy is at the city gates, or there is a general fear that he is coming, the individual abdicates his self-reliance and places himself unreservedly under the direction of the captain; he gives up his freedom in order to attain freedom. Or so he thinks. But it is a matter of record that what he gives up is never fully returned to him, that he must fight his own captain to get

back his natural heritage. The State jealously guards the power over Society which it has acquired during a climate of fear. To prove the point, we need not review the history of ancient Rome, where a succession of protective wars ended up in the servitude of the people to the emperors; we need only list and add up the interventionary powers acquired by the American State during the wars it conducted; the sum total is a monstrous tax load, a monstrous bureaucracy, a monstrous statute book, and a popular conviction that the State (which was feared and despised in 1789) is the giver of all things good. So, then, the "protective" service rendered by the State is paid for not only with taxes but also with subservience. Society is much poorer for it.

It is when the State undertakes to manage, regulate, or control the market place, or presumes to enter it as an entrepreneur, that its capacity for causing shortages is best displayed. Necessarily, the State brings to bear in such ventures the only tool in its kit—force. It has no other equipment. Not that the bureaucracy, if they applied themselves as individuals to production, could not do as well as other individuals of equal capacity, but that as bureaucrats they feel no call to meet the conditions of the market place; they have force at their command and their business is to use that force. And force, in the political sense, is to the market place as sand is to a machine.

Let us look to a few of the State's forays into the market place which it undertakes in the interest of the "general welfare."

The encouragement of home industry by limiting or excluding competitive importations has been standard procedure with the State since time immemorial. The foreigner's

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wares are kept out of the home market not because he insists on offering them, but because the home market demands them. A country imports only what it wants. Hence, the tariff has the effect of restraining the primordial urge of the human being—to satisfy his desires with the least effort, at the lowest cost. It makes for scarcity, the very condition that man instinctively seeks to avoid. This is not only a result of the tariff, it is the purpose of the tariff. It is admittedly a scarcity-producing device, and as such it is antisocial. This is emphasized by the ready market which the smuggler, who always follows in the wake of a tariff, enjoys.

The State, particularly in modern times, often assumes an entrepreneurial role "for the good of Society." When it does so it invariably makes use of its monopoly of compulsion to exclude competition from the field into which it enters, or at least to make competition difficult. It admits its own incompetence—its lack of equipment for anything but the acquisition or exercise of power—by removing its operations from comparison with the performance of private entrepreneurs. It fixes its prices and its standards of performance to suit its own convenience and leaves the consumer no recourse. Indeed, as in the case of our post office, the State compels the non-consumer to pay for its upkeep; the man who never sends or receives a letter is forced through taxes to make up the operational losses of the department. These losses, deficits, are *prima facie* evidence of the department's inadequacy, which the State hastens to cover up by declaring that the deficits represent more services than the user of the post office pays for. Whether this is so or not, only competition could tell, and that the State will not allow. Under the circumstances, it is safe to conclude that whenever the State undertakes to make goods or render services for which there is a demand it does

so without regard to the wishes of the consumer. That it causes shortages can be ascertained by comparison with the performance of privately operated services in comparable fields (as, for instance, the telephone service versus the post office). Making a shortage is a social disservice.

The shortage-inducing proclivity of the State is best shown when it undertakes to regulate, manage, or manipulate the market place. The occasion for such efforts is social unrest due to scarcities, caused either by the State's own interventionary measures or by some disaster, such as a drought, flood, or conflagration. Since scarcity causes a rise in price, to the discomfort of the consumer, the State, which is utterly incapable of causing the abundance that would reduce price, attempts to make use of its compulsory powers to accomplish that end. It always fails. Not only that, the measures it employs invariably cause a greater shortage.

A prime example of this is the fatuous efforts to control or fix rents. The increased cost of living space is caused by a shortage of houses. Putting aside the accidental destruction of houses, the shortage generally results from the diversion of materials and labor from the construction of houses to the production of military material. New dwellings are not produced and old ones are allowed to decay. Under the conditions the action of the market place automatically pushes up the price of space to a level some dwellers are unable to meet and causes others to do without other things in order to keep a roof over their heads. This causes dissatisfaction, which the State undertakes to assuage by peremptorily ordering house owners to hold rents at a fixed figure; incidentally, it diverts attention from the real cause for the high rents by implying or asserting that they evidence the brash cupidity of the house owners. Since the rents fixed by law are invariably

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lower than the cost of maintaining the properties, including the services that go with tenancy, the law in fact orders the owner to dig into his pocket to make up the deficit. That amounts to commanding him to make a present of his capital to the renter. To avoid that consequence, and to keep within the law, he cuts down on the service implied in the lease as well as on the repairs necessary for the upkeep of his property. Assuming that there is no collusion between the renter and owner to evade the law, the renter does pay less than the market price of his space, but he also gets less: less heat, less paint, less plumbing repairs, less cleanliness, less elevator services, and so on. Thus, rents are controlled on the statute books only.

Rent controls have the effect of continuing and increasing the shortage of houses which brought on the controls. For builders are reluctant to invest their capital in the construction of houses which, because of the controls, will not yield a return equal to costs or equal to what a like investment in some other line would yield. It is a well-known fact that very few houses, far fewer than are needed, have been erected in France since it instituted rigid rent controls after World War I. That is to say, the State's forays into the market place, in the interest of the "general welfare," invariably work to the disadvantage of Society.

The ingenuity of the State in taking advantage of every contingency to promote its own business, which is the accumulation of power, is illustrated in the way the American political establishment met the scarcity aggravated by its rent-control venture. Seeing that rent control did not control but rather worsened the housing shortage, and being reluctant to admit its error, it supplemented control with subsidization. It subsidized builders, it subsidized bankers who made loans

to builders, and it subsidized renters. The builders overvalued the housing projects they undertook, so that the bankers would make large loans, which the State guaranteed to pay in case of default, and in that way the entrepreneurs received what they would have lost had they depended on the low-rent payments fixed by law. The difference between market rent and legal rent was made up by taxes, and the dignity of the law was upheld. One consequence of this maneuver was to put upon the taxpayer a continuing load; another, and that is most important from the State's point of view, was the establishment of a permanent bureaucracy to manage the problems that subsidized housing entails: the evaluation of loan applications, the setting up and supervision of construction standards, the checking of amortization and interest payments, the enforcement of rules and regulations for subsidized renters. In the offing is another bureaucracy for the execution of foreclosures. Society acquired taxes and the State acquired power.

This is true whenever the State presumes to regulate the market place. The rent-control business is used here as an illustration. Price control of any kind must produce scarcities and therefore cause prices to rise to still higher levels, simply because the fictitious price discourages the production of the abundance that would automatically reduce price; price control has the same effect on the output of a factory as the subsistence wage has on the output of a slave. And in an integrated economy, where each specialized field of activity impinges on and is dependent on other fields, the attempt to fix a price of one commodity compels an attempt to fix other prices; a fixed price on a cup of coffee necessitates control of the price of cream, sugar, coffee beans, transportation, and all the services involved in bringing the beverage to the con-

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sumer. Wages, the largest element of cost, must also be included in the rubric of rigidity. It is obvious that the effort to regulate distribution at the point of price must be followed by an attempt to regulate production, to the allocation of raw materials, to the fixing of production standards, to the limitation of variety—to shortages. An economy cannot long remain half free and half socialistic. As soon as Society accommodates itself to one intervention, accepts it as a necessary condition of existence, the resulting scarcity calls for a contiguous interference, which is the more easily introduced because of the antecedent adjustment.

What exactly is meant by price, wages, rent, interest? These mechanisms of the market place are self-operating, self-controlling, inanimate, and quite oblivious of human whim. They reflect what humans do, to be sure; prices rise if humans produce less and demand more; they drop when humans produce more and consume less; they do so automatically and regardless of statutes. They cannot be controlled by political power, and the State concedes that point when it includes in the price-control law a punishment clause. The punishment law is not directed at price but at men. This is the only field in which the State has any competence—the regulation of human conduct by the use of coercion. The price-control law directs the consumer not to pay more than the legal list for his satisfactions, and it instructs the producer not to accept more. If either or both of them disobey the interdict, the law says, punishment will follow. Thus, a price-control law does not aim to control price, which is beyond the jurisdiction of the State, but aims to control human behavior. And that, of course, is a denial of freedom—which is no concern of the State.