The Political Economy of Laissez-Faire

Author(s): William Waller

Source: *Journal of Economic Issues*, Mar., 2006, Vol. 40, No. 1 (Mar., 2006), pp. 59-74

Published by: Taylor & Francis, Ltd.

Stable URL: https://www.jstor.org/stable/4228224

JOURNAL OF ECONOMIC ISSUES
Vol. XL No. 1 March 2006

The Political Economy of Laissez-Faire

William Waller

Laissez-faire has several complicated roles in our culture. It is an intellectual construct in the history of economic thought; it has significance for economic theory; it is and has been a policy proposal or position in every public policy debate in the West since the eighteenth century; it is an ideological position—a logically inconsistent part of classic liberalism, a mild embarrassment to modern liberalism; it is a fetish of the lunatic right wing of the American political scene, a mantra for conservative think tanks, and a potent cultural symbol in industrial and industrializing economies—especially the United States. All of these roles contribute to the political economy of laissez-faire.

Laissez-Faire and the State

Classic Liberalism

The nation-state's sovereignty ultimately depends on the ability to establish, maintain, control, and defend borders and maintain order within those borders. It is from these necessities that the police powers of the state derive. Classic liberalism's focus on the minimal state usually leaves little for the state to do except provide for the common defense and maintaining courts of law. Yet the liberal state is usually combined with a notion of laissez-faire with regard to economic policy. The intellectual foundation for laissez-faire policy emerged from the classical economists' criticism of mercantilist policies—particularly the use of trade barriers including tariffs and custom duties to regulate international trade. But adopting a policy of *not* controlling and regulating trade across borders is to abandon sovereignty—because sovereignty is the ability to determine who and what can cross a nation-state's border and under what conditions. Consequently, as Rexford Tugwell (1968) noted, the very definition of the liberal state requires that the

---

The author is Professor of Economics at Hobart and William Smith Colleges in Geneva, New York.

police powers of the state be used to regulate the borders, including commerce across those borders, and maintain order and stability within the borders, including insuring the ongoing process of provisioning and necessarily commerce. This builds a fundamental contradiction into the classic liberal state.

Modern Liberalism

Modern liberalism's embarrassment with regard to laissez-faire policy derives from recognition of this above-mentioned fundamental contradiction in the classical liberal notion of the state and wishing it weren't so.

The Pragmatic State

As I have argued elsewhere (Waller 1992 and forthcoming), institutional economics incorporates a theory of the state that is pragmatic and problem solving. Consequently, what is referred to as *laissez-faire* has no meaning at all—in that the decision to not have a government policy regarding an aspect of provisioning is simply another government policy. *Laissez-faire policy* as used in economic discourse is prescriptive in that absent any compelling reason, laissez-faire is the presumptive, default policy. As an economist at the U.S. Environmental Protection Agency once told me in private conversation:

> In a way, all the professional economists [excepting political appointees] at the EPA are institutionalists because in the interdisciplinary environment in which we work you cannot walk into a meeting with scientists, engineers and lawyers and say that all we need to do is free the market—it won't pass the laugh test. If you actually say that phrase everyone in the room will laugh at you. Besides they don't need an economist to say "Free the Market!" you can train a parrot to do it whenever you feed it a cracker.

Alas, at least in part because of the aforementioned laugh test, these days my colleague finds that our environmental policy assessment comes from the White House to the EPA, not the other way around.

Laissez-Faire in Economic Thought

John Maynard Keynes, in his essay "The End of Laissez-Faire," noted that the term *laissez-faire* appears in its economic form in the private writing of Marquis d'Argenson in 1751. Keynes characterized *laissez-faire* as meaning "that by the working of natural laws individuals pursuing their own interests with enlightenment in conditions of freedom always tend to promote the general interest at the same time!" (1972, 274). He noted the term does not appear in Adam Smith, Ricardo, or Malthus. He further noted that "[t]his is what the economists are supposed to have said. No such doctrine is really to be found in the writings of the greatest authorities. It is what the popularisers and the vulgarisers said" (277). Indeed, he noted that from John Stuart Mill to Alfred Marshall, economists spent a great deal of their effort elucidating the occasions when private interests and social interests do *not* correspond. He noted "the guarded and undogmatic attitude of the best economist has not prevailed against the general opinion that an individualistic laissez-faire is both what they ought to teach and what in fact they do teach" (282).

As Keynes moved on to discuss what he called the *Agenda*, he summarized—

> Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive "natural liberty" in their economic activities. There is *no* "compact" conferring perpetual rights on these who Have or on those who Acquire. The world is *not* so governed from above that private and social interests always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the principles of economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does not show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately. (1972, 287–8)

It is interesting that Keynes' essay would spark a small industry to search out recommendations in favor of laissez-faire policy in the work of the classical economists.

Of course, Keynes did not settle the issue. And it will surprise no one that the cause of finding the lazy fairy was taken up in the University of Chicago's economics department.

Jacob Viner and Laissez-Faire—Or, Laissez-Faire, Anyone? Really?

The defense of laissez-faire as both a theoretical economic construct and as a policy proposal derived from sound economic judgment begins with an assessment of the work of Smith by Jacob Viner in 1927. Viner constructed the definition of *laissez-faire* from Smith's text in *The Wealth of Nations*:

> In . . . [Smith's] one deliberate and comprehensive generalization dealing with the proper function of the state, Smith made it clear . . . that he would narrowly restrict the activities of government. "According to the system of natural liberty, the sovereign has only three duties to attend to; . . . . first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, ... the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public institutions and certain public works." (218, quoting Smith II, 185)

Viner later opined—

> Smith made many exceptions to his general argument for laissez-faire. But his interest as a reformer and a propagandist was not in these exceptions which he would have made to his general restrictions of government activity to protection, justice, and the maintenance of a few types of public works and public institutions. When considering in general terms the proper functions of government, he forgot all about these exceptions. (218)
>
> . . . There is no possible room for doubt, however, that Smith in general believed that there was, to say the least, a strong presumption against government activity beyond its fundamental duties of protection against its foreign foes and maintenance of justice. (219)

Of course, all this does is assert that whatever Smith was in favor of in terms of the appropriate role for government is, by definition, laissez-faire. The circularity of this argument is perfect, and consequently the argument is not terribly compelling—however, this is hardly a unique case of tautology in the history of economic thought.

Mark Francis (1978, 317–319) in his analysis of Herbert Spencer and laissez-faire noted this tendency in Viner and other writers who have evaluated the historical importance of laissez-faire as a concept or a policy regime. A person who favors limited government or free trade in the abstract but allows for some number of exceptions in practice is a proponent of laissez-faire. So any policy regime of limited government and support of free trade, but also including some undetermined number of violations of and exceptions to these policy proscriptions, is a regime of laissez-faire policy. Francis said in a footnote, "Some historians talk of a 'tendency' towards laissez-faire in the nineteenth century, a figure of speech which allows them to ignore any exceptions" (318, footnote 6).

While some arguments regarding who was or was not in favor of laissez-faire as a policy regime or whether a regime of laissez-faire in policy ever occurred continued in the fields of economic history and the history of economic thought (Gordon 1955; Schwartz 1966; Holmes 1976; Francis 1978; Gordon 1971; Viner 1960), eventually a consensus does seem to have emerged. This consensus can be expressed by the following:

> The doctrine of laissez faire was extant in nineteenth-century Britain, but it was only one facet of political and public opinion. Whilst the doctrine was promulgated by well-known British and French writers it was not preached by the British classical economists, and it did not constitute a dominant force in the making of government policy. (Holmes 1976, 688)

There was no such general sentiment in a [laissez-faire] position of commanding influence at this time [1797–1875]. The evidence suggests rather that the choice of an automatic system of regulation was dictated by a strong sense of the incapacity of government to manage by deliberate acts of policy an area of the economy as complex and mysterious as the monetary system. It was the result of a fearful awareness of the grave consequences of mismanagement in this area and an assessment of the limits of administrative competence, rather than a positive choice of an abstract optimum. . . . Positive policy can be undertaken only when one is convinced (whether validly or not) that one understands what one is doing. . . . The same can be said for fiscal policy as well. (Gordon 1971, 204–205)

Finally, A. W. Coats (1971) described the policy recommendations and prescriptions of the classical economists in the following way:

> Faced with the need to decide the merits of any specific policy proposal, the [classical] economists' first impulse was to oppose state intervention as a threat to individual freedom. But on further reflection, and after due consideration of the evidence, individual members of the school were often prepared to revise their initial opinion on the grounds that the special circumstances of the case warranted an exception to the general rule. Such exceptions do not, in the nature of the case, fall readily into a neat pattern. For any individual economist they were determined by a variety of factors—his temperament, his socio-political prejudices, his previous personal commitments on the subject, his evaluation of the weight of the argument and evidence pro and con, and his interpretation of past experience and future prospects—occasionally including an estimate of the cost and administrative feasibility of the proposal.
>
> . . . For to quote McCulloch, who is often regarded as the most narrow and doctrinaire member of the [classical] school, to appeal to the principle of laissez-faire "on all occasions savours more of the policy of a parrot than of a statesman or philosopher." (16–17)

It seems that classical economists, when exploring real policy alternatives in light of important social problems, were remarkably pragmatic rather than doctrinaire.

John Maynard Keynes and Laissez-Faire

In his revolutionary book *The General Theory of Employment, Interest, and Money*, Keynes provided the economic rationale for the abandonment of laissez-faire as a viable policy option. He argued that involuntary unemployment and recessions result from insufficient effective demand. The propensity to consume is stable. Investment is not equilibrated by the interest rate; instead, it is a function of investor expectations in an environment characterized by pervasive uncertainty. The motivation for investment is animal spirits, leaving only the government through loan expenditures (either for purposes of consumption or social investment) as a viable mechanism for stimulating the economy and achieving full employment. For essentially the same reasons, other mechanisms such as tax cuts, interest rate tinkering, and various other so-called "incentives" are less efficient as stimuli (1964, passim).

The use of government policy to manage the economy is necessary because "the outstanding features of our actual experience [in modern industrial economies];—namely, that we oscillate, avoiding the gravest extremes of fluctuation in employment and in prices in both directions, round an intermediate position appreciably below full employment and appreciably above the minimum employment a decline below which would endanger life" (Keynes 1964, 254).

Thus Keynes (1964, 378) argued, "I conceive, therefore, that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment; though this need not exclude all manner of compromises and devices by which public authority will co-operate with private initiative."

This is a simple and straightforward argument based on Keynes' uncontested empirical observations of the period in which he wrote. Keynes wrote the book for professional economists—probably a mistake. I have assigned the book to undergraduates for twenty years. They have no trouble understanding the argument of the book. Apparently advanced training in economics constitutes an acquired disability to read and understand Keynes' classic. This same disability might also explain the abysmal quality of modern macroeconomics textbooks.

But I suspect there is a good deal of obfuscation going on. If you read Keynes and understand his arguments, you can quibble with the relative impact of different government actions during a recession, but, once understood, a policy of laissez-faire is a policy that will create involuntary unemployment. Since knowing the result means intending the result, the suffering such a condition imposes on the working people in modern industrial society is then intentional.

Modern macroeconomic theory expresses its assumptions and propositions in arcane jargon and mathematical symbolism to avoid explaining what is meant in plain language. The reason is that the purpose of this branch of orthodoxy is to resurrect a theoretical rationale that avoids the financial and moral implications of Keynes' insights. This is a program driven by an ideological need to restore laissez-faire policy to respectability.[1]

It is in practice the provision of a rationale for the continuance of policy regimes which injure the working population and protect the property and privilege of the wealthy and powerful. Moreover, laissez-faire policy rationales, when they dominate policy discourse, insure that no policy that might significantly alter the distribution of income or the discretion of the powerful can be pursued. The use of incomprehensible theorizing to resurrect or appear to resurrect a plausible rational for laissez-faire policy is obfuscation pure and simple.

Laissez-Faire, Neoclassical Economic Purists, Schizophrenics, and Right-Wing Lunatics—Or, You Gotta Be Kidding Me!

It is hard to imagine a more authoritative source for a statement of the conservative economic agenda than Friedrich A. Hayek. Yet, in his classic *Road to Serfdom* (1944) Hayek made the following arguments regarding laissez-faire policy:

> It is important not to confuse opposition to this kind [central] of planning to a dogmatic laissez-faire attitude. The liberal argument is in favor of making the best possible use of the forces of competition as a means of coordinating human efforts, not an argument for leaving things just as they are. . . . It does not deny, but even emphasizes, that, in order that competition should work beneficially, a carefully thought-out legal framework is required and that neither the existing nor the past legal rules are free from defects. Nor does it deny that, where it is impossible to create the conditions necessary to make competition effective, we must resort to other methods of guiding economic activity." (36)

The acceptable scope of government intervention in economic outcomes that get approval from Hayek is quite vast indeed.

> There is no reason why in a society which has reached the general level of wealth which ours has attained the first kind of security [described earlier as "the certainty of a given standard of life"] should not be guaranteed to all without endangering general freedom. There are difficult questions about the precise standard which should thus be assured . . . but here can be no doubt that some minimum of food, shelter, and clothing, sufficient to preserve health and the capacity to work, can be assured to everybody. (1944, 120)

Nor is there any reason why the state should not assist the individuals in providing for those common hazards of life against which, because of their uncertainty, few individuals can make adequate provision. Where, as in the case of sickness and accident . . . the case for the state's helping to organize a system of comprehensive system of social insurance is very strong. (120–121)
This is really a quite strong endorsement of the welfare state by an economist whose status in the pantheon of conservative intellectuals is very secure.

So when did laissez-faire policy really become something that economists explicitly recommended or considered as a viable option if the classical liberal economists always chose to qualify their inclinations and preferences? Clearly it is some time after 1962. This date is taken from the publication of Milton Friedman's book *Capitalism and Freedom*. In this classic statement of liberalism of this period Friedman wrote—

> A government which maintained law and order, defined property rights, served as a means whereby we could modify property rights and other rules of the economic game, adjudicated disputes about the interpretation of the rules,

> enforced contracts, promoted competition, provided a monetary framework, engaged in activities to counter technical monopolies and to overcome neighborhood effects [free rider problems] widely regarded as sufficiently important to justify government intervention, and which supplemented private charity and the private family in protecting the irresponsible, whether madman or child—such a government would clearly have important functions to perform. The consistent liberal is not an anarchist. (34)

But following his archetypal statement of the classic liberal state, Friedman laid out the basic laissez-faire policy agenda as it pretty much consists today: "Yet it is also true that such a government would have clearly limited functions and would refrain from a host of activities that are now undertaken by federal and state governments in the United States" (1962, 34–5).

He listed these activities (enumerated in Friedman 1962, 35; edited to save space):

1. Parity price support programs for agriculture.
2. Tariff on imports or restrictions on exports.
3. Government control of output (e.g., farm programs).
4. Rent control.
5. Legal minimum wages or maximum prices (e.g., interest rate maximums).
6. Detailed regulation of industry.
7. Censorship through FCC control of radio and television.
8. Social Security.
9. Licensure provisions and business zoning.
10. Public housing.
11. Conscription.
12. National parks.
13. Carrying mail for profit.
14. Publicly owned and operated toll roads.

This agenda came into full bloom in popular policy discussions, expanded beyond classic liberal neoclassical economists' wildest dreams in the Ronald Reagan years, and continues unabated today.

We see that both Hayek and Friedman affirmed some level of income maintenance for some members of society, thereby affirming, fairly strongly in the case of Hayek and unenthusiastically in the case of Friedman, the basic welfare state. But by the Reagan years, any form of income maintenance was under attack, employing what Albert O. Hirschman (1991, passim) described as the perversity thesis. The perversity thesis is an argument that asserts that attempts to use government policy to achieve worthwhile and socially desirable economic goals inevitably lead to outcomes that are the opposite of what was intended by the formulators of the policies. Charles Murray's polemic *Losing Ground* (1984) is a prime example of arguing for the elimination of income maintenance programs because they cause poverty. While Murray's work has been largely discredited, it was ultimately successful in the sense that it changed public perception and then the policy discourse, and finally led to the elimination of welfare by the Bill Clinton administration.

That this changed attitude toward any form of government action was openly adopted by some prominent economists is illustrated by a casual perusal through the contents of one public policy journal produced by a conservative think tank, namely, *The Cato Journal* of the Cato Institute. Articles dating from the late 1980s show this change in opinion (or at least candor) to a complete and open hostility toward almost any government action in full bloom. There are articles titled "It's Time to Free the Mails" (Miller 1988), "End the Postal Monopoly" (Miller 1985), and "Deregulating Urban Transportation" (Cervero 1985) reflecting the Friedman 1962 agenda. Then there are articles representing the change wrought by the perversity thesis represented by "State Education: Have Economists Made a Case?" (High 1985; answered negatively), "Have Antipoverty Programs Increased Poverty?" (Gwartney and McCaleb 1985; answered affirmatively), and "Should We Sell the Fed?" (Kelley and Clark 1988; let the market decide). In the article considering the sale of the Federal Reserve Banks, the authors noted that their economist colleagues found this proposal "wild" and "crazy" (138). And then there is the pièce de résistance, an almost unbelievable article that still amazes me: "Privateering and the Private Production of Naval Power" (which the authors do not recommend on technological grounds but note that it was effective and cost efficient in the past [Anderson and Gifford 1991]).

What happened to create an environment where reputable economists and public officials would write such articles which twenty years before would have constituted nothing more than a conservative neoclassical economist's wet dream? How did this near insanity become reputable for grown-ups to talk about seriously?

To understand this we need to expand beyond the notion of laissez-faire as an intellectual construct or a policy recommendation emerging from some version of a theory—though it certainly poses as one—and try to understand it as a potent cultural symbol.

The Symbol

To say that something is a symbol is not particularly interesting unless we mean something more than a sign that refers the viewer to a particular object. And when we are referring to an idea as being *symbolic* we need to be more specific about what we mean.

At the simplest level the word *laissez-faire* refers to a policy of nongovernment intervention into economic affairs. This is its simplest representation. But at another level, following Roland Barthes' definition of a *myth* (1972), the word draws together a much more complex set of cultural associations that also construct meaning.

Laissez-faire, through its use by popularizers as noted by Keynes, is associated with the seminal ideas of the classic economic thinkers. This association ties it to liberal political philosophy and its argument in favor of limited government. Classic liberal thought is associated in the United States with our revolutionary history and principles of liberty and freedom interpreted individualistically. This connection to liberty and freedom makes the presumption in favor of laissez-faire policy, in the perception of the American public, an ingredient of patriotism and the definition of what it means to be an American. This sort of appeal is culturally resonant, particularly with conservative social groups—thus supporting laissez-faire policy is considered conservative and respectable. For most of the American public, laissez-faire policy is synonymous with free enterprise and freedom more generally. There is no more important symbol in the American cultural matrix than freedom—it shares place of pride as a primary value and symbol along with apple pie, motherhood, and baseball.

That this potent symbol and its connection to American mythology have been used extensively by commercial interests as a potent weapon to oppose government regulation, restriction, and oversight of commercial behavior hardly needs documentation. Similarly, the embrasure of laissez-faire policies by politicians is legitimized by this mythology even as it serves the interest of their important political patrons and vested interests.

This symbolic character of laissez-faire policy is important because it establishes a particular policy position as *the* default position that the public will favor unless overwhelmingly compelling arguments are made for an alternative policy. An analogy would be the difference in reaction to a person arriving at a Fourth of July picnic with an apple pie compared with someone arriving with crepes or baklava. All are desserts, and all would probably be appreciated and enjoyed; however, only the apple pie would assuredly create no dissonance at an Independence Day celebration.

The Potency of the Symbol—Or, Can Things Really Get Worse?

The world will not end because of the hegemony of apple pie over other dessert dishes in the United States. However, economic policy is another matter. Let's examine the potency of the concept of laissez-faire on United States economic and public policy employing Friedman's 1962 agenda.

Parity Price Support Programs for Agriculture—Price supports were eliminated by *The Freedom to Farm Act of 1996*. This experiment failed miserably—special emergency payments were reinstated in 2000. The George W. Bush (Bush II) administration abandoned the goals of the 1996 legislation and increased the emergency funding by 80 percent and made it permanent in 2002. In this case the laissez-faire agenda was successfully implemented but rescinded in light of the political cost to conservatives of its failure.

Tariff on Imports or Restrictions on Exports–The Bush II administration submitted a proposal to the World Trade Organization to eliminate all tariffs on industrial and consumer goods by 2015 on November 26, 2002 (Edmund L. Andrews, "U.S. to Seek To Abolish Many Tariffs," *New York Times*, November 26, 2002, C1). This has been an area of success for the laissez-faire policy program.

Government Control of Output (e.g., Farm Programs)–The Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624) authorizes the elimination of U.S. production controls. This was a partial success for the laissez-faire policy program–see number 1 in the previous list.

Rent Control–Rent control continues in New York City, Maryland, California–including Silicon Valley, Connecticut, Washington, D.C., and New Jersey. Massachusetts passed an initiative outlawing rent control in 1994. Rent control tends to be an urban issue. The only successful rescinding of rent control policies occurred through a statewide voter initiative, a partial success for the laissez-faire policy program.

Legal Minimum Wages or Maximum Prices (e.g., Interest Rate Maximums)–The minimum wage reached its highest point in 1968 when it was worth \$7.92 (in 2000 dollars). It has continuously deteriorated since that time. It currently stands at \$5.15 in current dollars. While evidence continues to accumulate showing few if any adverse employment effects from minimum wage increases, the conventional wisdom has not changed. Laissez-faire is still used to argue against minimum wage legislation and has been successful in slowing increases to the point that the real value of the minimum wage has continuously declined. There has been some progress through state minimum wage regulations and local living wage ordinances. Interest rate regulation was phased out as a provision of *The Depositary Institutions Deregulation and Monetary control Act of 1980*. Banking and financial service deregulation has continued unabated since that time. In this area the laissez-faire policy agenda has been partially successful.

Detailed Regulation of Industry–This essentially ended in 1980 when the Reagan administration began getting the government off our backs. This process included abandonment of existing tepid enforcement of existing regulations and created processes that made it very difficult to implement new regulations, including mandated cost-benefit analyses of possible regulations. See also number 5 in the previous list. In this area the laissez-faire policy agenda has been partially successful.

Censorship through FCC Control of Radio and Television–Censorship of radio and television has not occurred. However, increased concentration in ownership of radio and television resources is being encouraged by removing regulations that limit media ownership.

The drive to shift these public resources to private hands at bargain prices continues. In this area the laissez-faire policy agenda has been partially successful.

Social Security–Average monthly payments have increased by $140 in 1999 dollars since 1980, or about $7 per year. The current system of transfers is currently threatened by a scheme to allow citizens to designate some of their payroll tax to be privately invested. This is simply a scam by the financial services industry to line its pockets at the expense of private citizens through the charging of commissions at the cost of making the retirement benefits of those same citizens insecure. This important program has not succumbed to the laissez-faire policy agenda–though it has been systematically attacked.

Licensure Provisions and Business Zoning–These remain variously regulated by the states and localities.

Public Housing–Federal programs have been cut and systematically underfunded since the Reagan administration.

Conscription–The U.S. Selective Service Act of 1967 was allowed to expire by Congress in 1971. In 1980 registration was again required, but it did not authorize induction. This is clearly an area of success of the laissez-faire policy agenda.

National Parks–The Bush II administration is the first to challenge the president's authority to create national monuments, forests, and preserves by executive order in an attempt to reverse a number of Clinton administration acts of preservation. The National Park System has been systematically underfunded since the Reagan years. Moreover, successive administrations have attempted with some success to open these protected sites to increased private exploitation. This has been a partial success for laissez-faire policy advocates.

Carrying Mail for Profit–The Postal Act of 1845 prohibits private companies from carrying letters for hire. This is essentially the law of the land today. It applies only to first class and junk mail. However, the 1960–70s saw the emergence and success of private carriers offering "express mail," to which the U.S.P.S. responded with its own express mail. Electronic mail is increasingly making the issue technologically irrelevant. The U.S.P.S. remains a target of those promoting a laissez-faire policy agenda.

Publicly Owned and Operated Toll Roads–These remain in many states.

The success since 1962 of implementing the laissez-faire agenda articulated by Friedman is stunning. The proponents of laissez-faire policies have had three complete successes (1, 2, 11) and seven partial successes (3, 4, 5, 6, 7, 12, 13), have systematically underfunded two sets of policies they could not eliminate (8, 10), and have had only two failures (9, 14), which are interestingly areas of public policy handled almost exclusively by the states and localities. The power of laissez-faire as a symbol over popular and political consciousness is truly staggering. The fact that we have been led by "Madmen [and women] in authority, who hear voices in the air, [who] are distilling their frenzy from some [non-] academic scribbler of a few years back," to paraphrase and slightly amend Keynes (1964, 383) in light of the scholarship cited above, Keynes has undoubtedly helped that agenda proceed for a significant part of that period. Additionally, the oil crisis of the early 1970s, high interest rates for the rest of the 1970s, and the decline of American manufacturing certainly led to a questioning of the post-war policy consensus (such as it was).

Such is the power of cultural symbols.

Conclusion—Or, What Do We Do About Symbols?

How do you change or alter either public understanding or the cultural symbol itself? A huge part of any culture's symbolic system is its language. A useful characteristic of language as cultural symbol is that language is filled with ambiguity and redundancy. Similarly, the value systems of cultures often incorporate multiple, not necessarily consistent valuational metrics and criteria. A very powerful valuational metric in the USA is the perception of fairness.

Laissez-faire invokes free enterprise, free trade, and thus economic freedom. However, this can be challenged by invoking another value of extraordinary importance in U.S. culture, namely, that of fairness. The value of economic freedom implies that people are free to pursue their economic goals. But this freedom can only be realized if people have an opportunity, meaning a reasonable chance, to achieve their economic goals. Moreover, that freedom cannot be realized if powerful vested economic and political interests act in such a way as to systematically frustrate peoples' pursuit of those economic goals. The enormous economic concentration of economic power, noted by many but most carefully documented by John Munkirs (1985), has created a system of coordinated planning and provided the wherewithal to obtain sufficient political influence to implement those plans. Consequently, our economy supports the vested interests' efforts to achieve their economic goals while this same state of affairs frustrates all but the luckiest of the common people in their pursuit of the minimal economic goal of security–much less independence. Thus free enterprise–is really free corporate enterprise.

What is needed to create genuine economic opportunity is *fair* enterprise. This concept needs to be articulated as limiting corporate hegemony over the economy and providing economic opportunity by leveling the playing field. Of course, public policy supporting small businesses, oversight of accounting practices and standards, and careful regulation of financial services and the securities industries are all examples of policies aimed at making enterprise fairer and genuinely supporting the opportunity so brightly promised to all and so ephemerally realized only by a conspicuous few in the U.S. economy.

Similarly, we must work on establishing the concept of *fair* trade. Free trade may create benefits when practiced among equals in the absence of coercion. But when the trade occurs between people and societies with tremendously varied resource availability, different availability of technology and training, widely varied access to financial institutions, populations with different levels of health and education, tremendously varied political institutions, varied transportation systems, different energy use patterns, and so on, we need to be sure that trade is *fair* to insure it benefits all and does not exacerbate the problems of people in less advantaged and developing economies. This concept of *fair* trade implies improving labor standards to some minimum, international cooperation in setting environmental standards, restraint in resource exploitation by the affluent societies, outlawing child labor, reasonable protectionist measures to protect employment in the short term until minimum labor standards and wages are achieved, and any number of policies that are fair but anathema to those who benefit from power and resource differentials that systematically advantage them under an ideologically driven regime of free trade.

Those advocating policies of *fair* trade and *fair* enterprise must consistently associate the value of fairness with the value of opportunity. This is an emotionally strong and symbolically powerful valuational synergy. Americans are a fair people, and they love competition—in our national obsession with sports we admire the winner but not the cheater. We want a level playing field; then winning is a genuine achievement. There is no glory in winning a 1000-meter race if you get a 200-meter head start because you won the previous race. Opponents of Michael Jordan don't spot him ten extra points in basketball games because of his previous accomplishments.

This would also allow us to embrace the cultural significance of what David Hamilton (1957) called the "entrepreneur as cultural hero." The entrepreneurial spirit would flourish in a policy regime of fair enterprise, whereas currently the concept of "entrepreneurship" is simultaneously being appropriated symbolically to justify outrageous corporate behavior while genuine entrepreneurship is being crushed in reality in a laissez-faire regime.

Laissez-faire also implies limited government. Indeed, proponents are adamant that the police powers of the state should be limited to defense from outside aggression and maintenance of order within the boundaries of the state. Surely we should reaffirm our commitment to these limitations on the U.S. government's use of its military might.

Surely, we should reaffirm our commitment to the Bill of Rights and other constitutional protections of our freedom, especially our rights of privacy, in the current political climate.

We should support whatever measures are available for holding public officials accountable to their constituencies and corporate officials accountable to their shareholders and communities by restricting their behavior to legal activities. And of course we must support the protection of the common folk from the nefarious activities of criminals by using humane and effective means of restraint and punishment.

Finally, the concept of the public interest must be resurrected. Tugwell's classic book, *The Economic Basis of the Public Interest* (1968), should be taught to all students of economics, politics, business, and public policy. That there is a public impact and thus a material public interest that results from many private activities should be the centerpiece of our teaching and scholarly discourse and not relegated to the subsection on externalities in an optional chapter on possible market failures (to be totally ignored if time runs short).

We must reintroduce and reinforce these valuational metrics and criteria in our public discourse. We must use the words *fair trade, fair enterprise, the public interest, the commonweal, public welfare,* and *the good society.* With regard to free trade, free enterprise, and laissez-faire—they are just like a free lunch: There is no such thing!

Note

1. It is important, as a referee noted, to distinguish between economic theorists and analysts who support a policy of free markets both in principle and on a case-by-case basis from those who ideologically support such a policy regime always, everywhere, and under all circumstances. Some economists also believe that mathematical formalism is the only acceptable method of analysis. It is also the case that some thoughtful criticisms of Keynes' conclusions have been made by contemporary Austrian economists. However, *except when providing ideological support to laissez-faire ideology*, the Austrian school is mostly ignored, like all other heterodox economics, by the mainstream. This exemplifies the fact that the mainstream of the economics profession selects for those whose approach, method, and inclination does nothing to interfere with the overriding ideological disposition in favor of laissez-faire.

References

Anderson, Gary M., and Adam Gifford, Jr. "Privateering and the Private Production of Naval Power." *The Cato Journal* 11, no. 1 (Spring/Summer 1991): 99–122.

Barthes, Roland. *Mythologies.* London: Cape, 1972.

Cervero, Robert. "Deregulating Urban Transportation." The Cato Journal 5, no. 1 (Spring/Summer) 1985: 219–238.

Coats, A. W. *The Classical Economists and Economic Policy.* London: Methuen, 1971.

Francis, Mark. "Herbert Spencer and the Myth of Laissez-Faire." *Journal of the History of Ideas* 39, no. 2 (April-June 1978): 317–28.

Friedman, Milton. *Capitalism and Freedom.* Chicago: University of Chicago Press, 1962.

Gordon, H. Scott. "The London Economist and the High Tide of Laissez-Faire." *Journal of Political Economy* 63, no. 6 (December 1955): 461–88.

——. 1971. "The Ideology of Laissez-Faire." In *The Classical Economists and Economic Policy*, edited by A. W. Coats, 180–205. London: Methuen, 1971.

Gwartney, James, and Thomas S. McCaleb. "Have Antipoverty Programs Increased Poverty?" *The Cato Journal* 5, no. 1 (Spring/Summer 1985): 1–16.

Hamilton, David. "The Entrepreneur as Cultural Hero." *Southwestern Social Science Quarterly* 38 (December 1957): 248–256.

Hayek, Friedrich A. *The Road to Serfdom.* Chicago: University of Chicago Press, 1944.

High, Jack. "State Education: Have Economists Made the Case?" *The Cato Journal* 5, no. 1 (Spring/Summer 1985): 305–324.

Hirschman, Albert O. *The Rhetoric of Reaction.* Cambridge, Mass.: Belknap Press, 1991.

Holmes, Colin. "Laissez-Faire in Theory and Practice: Britain, 1800–1875." *Journal of European Economic History* 5 (1976): 671–688.

Kelly, William A., Jr., and Nardineeli Clark. "Should We Sell the Fed?" *The Cato Journal* 8, no. 1 (Spring/Summer 1988): 125–138.

Keynes, John M. *The General Theory of Employment, Interest, and Money.* San Diego, Calif.: Harcourt Brace and Co., 1964.

——. "The End of Laissez-Faire." In *Essays in Persuasion,* 272–294. London: Macmillan, 1972. Originally published in 1926.

Miller, James C., III. "End the Postal Monopoly." *The Cato Journal* 5, no. 1 (Spring/Summer 1985): 149–156.

——."It's Time to Free the Mails." *The Cato Journal* 8, no. 1 (Spring/Summer 1988): 199–204.

Munkirs, John. *The Transformation of American Capitalism.* Armonk, N.Y.: M. E. Sharpe Inc., 1985.

Murray, Charles. *Losing Ground.* New York: Basic Books, 1984.

Schwartz, Pedro. "John Stuart Mill and Laissez-Faire: London Water." *Economica* 33, no. 129 (February 1966): 71–83.

Tugwell, Rexford. *The Economic Basis of the Public Interest.* New York: Augustus M. Kelley, 1968.

Viner, Jacob. "Adam Smith and Laissez Faire." *Journal of Political Economy* 35, no. 2 (April 1927): 198–232.

——. "The Intellectual History of Laissez-Faire." *Journal of Law and Economics* 3 (October 1960): 45–69.

Waller, William. "Economic Security and the State." In *The Stratified State,* edited by William Dugger and William Waller, 153–172. Armonk, N.Y.: M. E. Sharpe, Inc., 1992.

——. "The Pragmatic State." In *Alternative Economic Theories of the State,* edited by Steve Pressman. London: Ashgate, forthcoming.