would in this special area, as the market does in general, permit co-operation without conformity.[2]

The state of Virginia has adopted a plan having many features in common with that outlined in the preceding chapter. Though adopted for the purpose of avoiding compulsory integration, I predict that the ultimate effects of the law will be very different—after all, the difference between result and intention is one of the primary justifications of a free society; it is desirable to let men follow the bent of their own interests because there is no way of predicting where they will come out. Indeed, even in the early stages there have been surprises. I have been told that one of the first requests for a voucher to finance a change of school was by a parent transferring a child from a segregated to an integrated school. The transfer was requested not for this purpose but simply because the integrated school happened to be the better school educationally. Looking further ahead, if the voucher system is not abolished, Virginia will provide an experiment to test the conclusions of the preceding chapter. If those conclusions are right, we should see a flowering of the schools available in Virginia, with an increase in their diversity, a substantial if not spectacular rise in the quality of the leading schools, and a later rise in the quality of the rest under the impetus of the leaders.

On the other side of the picture, we should not be so naïve as to suppose that deep-seated values and beliefs can be uprooted in short measure by law. I live in Chicago. Chicago has no law compelling segregation. Its laws require integration. Yet in fact the public schools of Chicago are probably as thoroughly segregated as the schools of most Southern cities. There is almost no doubt at all that if the Virginia system were introduced in Chicago, the result would be an appreciable decrease in segregation, and a great widening in the opportunities available to the ablest and most ambitious Negro youth.

[2] To avoid misunderstanding, it should be noted explicitly that in speaking of the proposal in the preceding chapter, I am taking it for granted that the minimum requirements imposed on schools in order that vouchers be usable do not include whether the school is segregated or not.

Chapter VIII

Monopoly and the Social Responsibility of Business and Labor

COMPETITION HAS TWO very different meanings. In ordinary discourse, competition means personal rivalry, with one individual seeking to outdo his known competitor. In the economic world, competition means almost the opposite. There is no personal rivalry in the competitive market place. There is no personal higgling. The wheat farmer in a free market does not feel himself in personal rivalry with, or threatened by, his neighbor, who is, in fact, his competitor. The essence of a competitive market is its impersonal character. No one participant can determine the terms on which other participants shall have access to goods or jobs. All take prices as given by the market and no individual can by himself have more than a negligible influence on price though all participants together determine price by the combined effect of their separate actions.

Monopoly exists when a specific individual or enterprise has sufficient control over a particular product or service to determine significantly the terms on which other individuals shall have access to it. In some ways, monopoly comes closer to the ordinary concept of competition since it does involve personal rivalry.

Monopoly raises two classes of problems for a free society. First, the existence of monopoly means a limitation on voluntary exchange through a reduction in the alternatives available to individuals. Second, the existence of monopoly raises the issue of the "social responsibility," as it has come to be called, of the monopolist. The participant in a competitive market has no appreciable power to alter terms of exchange; he is hardly visible as a separate entity; hence it is hard to argue that he has any "social responsibility" except that which is shared by all citizens to obey the law of the land and to live according to his lights. The monopolist is visible and has power. It is easy to argue that he should discharge his power not solely to further his own interests but to further socially desirable ends. Yet the widespread application of such a doctrine would destroy a free society.

Of course, competition is an ideal type, like a Euclidean line or point. No one has ever seen a Euclidean line—which has zero width and depth—yet we all find it useful to regard many a Euclidean volume—such as a surveyor's string—as a Euclidean line. Similarly, there is no such thing as "pure" competition. Every producer has some effect, however tiny, on the price of the product he produces. The important issue for understanding and for policy is whether this effect is significant or can properly be neglected, as the surveyor can neglect the thickness of what he calls a "line." The answer must, of course, depend on the problem. But as I have studied economic activities in the United States, I have become increasingly impressed with how wide is the range of problems and industries for which it is appropriate to treat the economy as if it were competitive.

The issues raised by monopoly are technical and cover a field

in which I have no special competence. In consequence, this chapter is limited to a fairly cursory survey of some of the broader issues: the extent of monopoly, sources of monopoly, appropriate government policy, and the social responsibility of business and labor.

THE EXTENT OF MONOPOLY

There are three important areas of monopoly requiring separate consideration: monopoly in industry, monopoly in labor, and governmentally produced monopoly.

1. *Monopoly in Industry* The most important fact about enterprise monopoly is its relative unimportance from the point of view of the economy as a whole. There are some four million separate operating enterprises in the United States; some four hundred thousand new ones are born each year; a somewhat smaller number die each year. Nearly one fifth of the working population is self-employed. In almost any industry that one can mention, there are giants and pygmies side by side.

Beyond these general impressions, it is difficult to cite a satisfactory objective measure of the extent of monopoly and of competition. The main reason is one already noted: these concepts as used in economic theory are ideal constructs designed to analyze particular problems rather than to describe existing situations. As a result, there can be no clear-cut determination of whether a particular enterprise or industry is to be regarded as monopolistic or as competitive. The difficulty of assigning precise meanings to such terms leads to much misunderstanding. The same word is used to refer to different things, depending on the background of experience in terms of which the state of competition is judged. Perhaps the most striking example is the extent to which an American student will describe as monopolistic, arrangements that a European would regard as highly competitive. As a result, Europeans interpreting American literature and discussion in terms of the meaning attached to the terms competition and monopoly in Europe tend to believe that there is a much greater degree of monopoly in the United States than in fact exists.

A number of studies, particularly by G. Warren Nutter and

George J. Stigler, have tried to classify industries as monopolistic, workably competitive, and governmentally operated or supervised, and to trace changes over time in these categories.[1] They conclude that, as of 1939, roughly one quarter of the economy could be regarded as governmentally operated or supervised. Of the three-quarters remaining, at most one-quarter and perhaps as little as 15 per cent can be regarded as monopolistic, at least three-quarters and perhaps as much as 85 per cent, as competitive. The governmentally operated or supervised sector has of course grown greatly over the past half-century or so. Within the private sector, on the other hand, there appears not to have been any tendency for the scope of monopoly to have increased and it may well have decreased.

There is, I suspect, a widespread impression that monopoly is both far more important than these estimates suggest and has been growing steadily over time. One reason for this mistaken impression is the tendency to confuse absolute and relative size. As the economy has grown, enterprises have become larger in absolute size. This has been taken to mean also that they account for a larger fraction of the market, whereas the market may have grown even faster. A second reason is that monopoly is more newsworthy and leads to more attention than competition. If individuals were asked to list the major industries in the United States, almost all would include automobile production, few would include wholesale trade. Yet wholesale trade is twice as important as automobile production. Wholesale trade is highly competitive, hence draws little attention to itself. Few people could name any leading enterprises in wholesale trade, though there are some that are very large in absolute size. Automobile production, while in certain respects highly competitive, has many fewer firms and is certainly closer to monopoly. Everyone can name the leading firms producing automobiles. To cite one other striking example: domestic service is a vastly more important industry than the telegraph and telephone industry. A third reason is the general bias and tendency to overemphasize

[1] G. Warren Nutter, *The Extent of Enterprise Monopoly in the United States, 1899–1939* (Chicago: University of Chicago Press, 1951) and George J. Stigler, *Five Lectures on Economic Problems* (London; Longmans, Green and Co., 1949), pp. 46–65.

the importance of the big versus the small, of which the preceding point is only a particular manifestation. Finally, the main characteristic of our society is taken to be its industrial character. This leads to overemphasis of the manufacturing sector of the economy, which accounts for only about one-quarter of output or employment. And monopoly is far more prevalent in manufacturing than in other sectors of the economy.

The over-estimation of the importance of monopoly is accompanied, for much the same reasons, by an over-estimation of the importance of those technological changes that promote monopoly by comparison with those that extend competition. For example, the spread of mass production has been greatly stressed. The developments in transportation and communication that have promoted competition by reducing the importance of local regional markets and widening the scope within which competition could take place have been given much less attention. The growing concentration of the automobile industry is a commonplace; growth of the trucking industry which reduces dependence on large railroads passes with little notice; so does the declining concentration in the steel industry.

2. *Monopoly in Labor* There is a similar tendency to overestimate the importance of monopoly on the side of labor. Labor unions include roughly a quarter of the working population and this greatly overestimates the importance of unions on the structure of wages. Many unions are utterly ineffective. Even the strong and powerful unions have only a limited effect on the wage structure. It is even clearer for labor than for industry why there is a strong tendency to overestimate the importance of monopoly. Given a labor union, any wage increase will come through the union, even though it may not be a consequence of the union organization. The wages of domestic servants have risen very greatly in recent years. Had there been a union of domestic servants, the increase would have come through the union and would have been attributed to it.

This is not to say that unions are unimportant. Like enterprise monopoly, they play a significant and meaningful role making many wage rates different from what the market alone would establish. It would be as much a mistake to underestimate as to overestimate their importance. I once made a rough estimate that because of unions something like 10 to 15 per cent of the working population has had its wage rates raised by something like 10 to 15 per cent. This means that something like 85 or 90 per cent of the working population has had its wage rates reduced by some 4 per cent.[2] Since I made these estimates, much more detailed studies have been done by others. My impression is that they yield results of much the same order of magnitude.

If unions raise wage rates in a particular occupation or industry, they necessarily make the amount of employment available in that occupation or industry less than it otherwise would be—just as any higher price cuts down the amount purchased. The effect is an increased number of persons seeking other jobs, which forces down wages in other occupations. Since unions have generally been strongest among groups that would have been high-paid anyway, their effect has been to make high-paid workers higher paid at the expense of lower-paid workers. Unions have therefore not only harmed the public at large and workers as a whole by distorting the use of labor; they have also made the incomes of the working class more unequal by reducing the opportunities available to the most disadvantaged workers.

In one respect, there is an important difference between labor and enterprise monopoly. While there seems not to have been any upward trend in the importance of enterprise monopoly over the past half-century, there certainly has been in the importance of labor monopoly. Labor unions grew notably in importance during World War I, declined during the 'twenties and early 'thirties, then took an enormous leap forward during the New Deal period. They consolidated their gains during and after World War II. More recently, they have been just holding their own or even declining. The decline does not reflect a decline within particular industries or occupations but rather a declining importance of those industries or occupations in which unions are strong relative to those in which unions are weak.

[2] "Some Comments on the Significance of Labor Unions for Economic Policy," in David McCord Wright (ed.), *The Impact of the Union* (New York: Harcourt, Brace, 1951), pp. 204–34.

The distinction I have been drawing between labor monopoly and enterprise monopoly is in one respect too sharp. To some extent, labor unions have served as a means of enforcing monopoly in the sale of a product. The clearest example is in coal. The Guffey Coal Act was an attempt to provide legal support for a price-fixing cartel of coal-mine operators. When, in the mid-thirties, this Act was declared unconstitutional, John L. Lewis and the United Mine Workers stepped into the breach. By calling strikes or work stoppages whenever the amount of coal above the ground got so large as to threaten to force down prices, Lewis controlled output and thereby prices with the unspoken co-operation of the industry. The gains from this cartel management were divided between the coal mine operators and the miners. The gain to the miners was in the form of higher wage rates, which of course meant fewer miners employed. Hence only those miners who retained employment shared the cartel gains and even they took a large part of the gain in the form of greater leisure. The possibility of the unions playing this role derives from their exemption from the Sherman Antitrust Act. Many other unions have taken advantage of this exemption and are better interpreted as enterprises selling the services of cartellizing an industry than as labor organizations. The Teamster's Union is perhaps the most notable.

3. *Government and Government-Supported Monopoly* In the United States, direct government monopoly in the production of goods for sale is not very extensive. The post office, electric power production, as by TVA and other publicly owned power stations; the provision of highway services, sold indirectly through the gasoline tax or directly by tolls, and municipal water and similar plants are the main examples. In addition, with so large a defense, space, and research budget as we now have, the federal government has become essentially the only purchaser of the products of many enterprises and whole industries. This raises very serious problems for the preservation of a free society, but not of a kind that are best considered under the heading of "monopoly."

The use of government to establish, support and enforce cartel and monopoly arrangements among private producers has grown much more rapidly than direct government monopoly and is currently far more important. The Interstate Commerce Commission is an early example, and it has extended its scope from railroads to trucking and other means of transport. The agricultural program is undoubtedly the most notorious. It is essentially a governmentally enforced cartel. Other examples are the Federal Communications Commission, with its control over radio and television; the Federal Power Commission, with its control over oil and gas moving in interstate trade; the Civil Aeronautics Board, with its control over airlines; and the enforcement by the Federal Reserve Board of maximum interest rates that banks may pay on time deposits, and the legal prohibition of the payment of interest on demand deposits.

These examples are on a federal level. In addition, there has been a great proliferation of similar developments on a state and local level. The Texas Railroad Commission, which so far as I know, has nothing to do with railroads, enforces output restrictions on oil wells, by limiting the number of days when wells may produce. It does so in the name of conservation but in fact for the purpose of controlling prices. More recently, it has been strongly assisted by federal import quotas on oil. Keeping oil wells idle most of the time to keep up prices seems to me featherbedding of precisely the same kind as paying coal firemen on diesel locomotives for being idle. Yet some representatives of business who are loudest in their condemnation of labor featherbedding as a violation of free enterprise — notably the oil industry itself — are deafeningly silent about featherbedding in oil.

Licensure provisions, discussed in the next chapter, are another example of governmentally created and supported monopoly on a state level. Restrictions on the number of taxicabs that can be operated exemplify similar restriction on a local level. In New York, a medallion signifying the right to operate an independent cab now sells for something like $20,000 to $25,000; in Philadelphia, for $15,000. Another example on a local level is the enactment of building codes, ostensibly designed for public safety, but in fact generally under the control of local building trade unions or associations of private contractors. Such restrictions are numerous and apply to a considerable variety of

activities on both city and state levels. All constitute arbitrary limitations on the ability of individuals to enter into voluntary exchanges with one another. They simultaneously restrict freedom and promote the waste of resources.

A kind of governmentally created monopoly very different in principle from those so far considered is the grant of patents to inventors and copyrights to authors. These are different, because they can equally be regarded as defining property rights. In a literal sense, if I have a property right to a particular piece of land, I can be said to have a monopoly with respect to that piece of land defined and enforced by the government. With respect to inventions and publications, the problem is whether it is desirable to establish an analogous property right. This problem is part of the general need to use government to establish what shall and what shall not be regarded as property.

In both patents and copyrights, there is clearly a strong prima facie case for establishing property rights. Unless this is done, the inventor will find it difficult or impossible to collect a payment for the contribution his invention makes to output. He will, that is, confer benefits on others for which he cannot be compensated. Hence he will have no incentive to devote the time and effort required to produce the invention. Similar considerations apply to the writer.

At the same time, there are costs involved. For one thing, there are many "inventions" that are not patentable. The "inventor" of the supermarket, for example, conferred great benefits on his fellowmen for which he could not charge them. Insofar as the same kind of ability is required for the one kind of invention as for the other, the existence of patents tends to divert activity to patentable inventions. For another, trivial patents, or patents that would be of dubious legality if contested in court, are often used as a device for maintaining private collusive arrangements that would otherwise be more difficult or impossible to maintain.

These are very superficial comments on a difficult and important problem. Their aim is not to suggest any specific answer but only to show why patents and copyrights are in a different class from the other governmentally supported monopolies and to illustrate the problem of social policy that they raise. One thing is clear. The specific conditions attached to patents and copyrights — for example, the grant of patent protection for seventeen years rather than some other period — are not a matter of principle. They are matters of expediency to be determined by practical considerations. I am myself inclined to believe that a much shorter period of patent protection would be preferable. But this is a casual judgment on a subject on which there has been much detailed study and on which much more is needed. Hence, it is deserving of little confidence.

THE SOURCES OF MONOPOLY

There are three major sources of monopoly: "technical" considerations, direct and indirect governmental assistance, and private collusion.

1. *Technical Considerations* As pointed out in chapter ii, monopoly arises to some extent because technical considerations make it more efficient or economical to have a single enterprise rather than many. The most obvious example is a telephone system, water system, and the like in an individual community. There is unfortunately no good solution for technical monopoly. There is only a choice among three evils: private unregulated monopoly, private monopoly regulated by the state, and government operation.

It seems impossible to state as a general proposition that one of these evils is uniformly preferable to another. As stated in chapter ii, the great disadvantage of either governmental regulation or governmental operation of monopoly is that it is exceedingly difficult to reverse. In consequence, I am inclined to urge that the least of the evils is private unregulated monopoly wherever this is tolerable. Dynamic changes are highly likely to undermine it and there is at least some chance that these will be allowed to have their effect. And even in the short run, there is generally a wider range of substitutes than there seems to be at first blush, so private enterprises are fairly narrowly limited in the extent to which it is profitable to keep prices above cost. Moreover, as we have seen, the regulatory agencies often tend themselves to fall under the control of the producers and so

prices may not be any lower with regulation than without regulation.

Fortunately, the areas in which technical considerations make monopoly a likely or a probable outcome are fairly limited. They would offer no serious threat to the preservation of a free economy if it were not for the tendency of regulation, introduced on this ground, to spread to situations in which it is not so justified.

2. *Direct and Indirect Government Assistance* Probably the most important source of monopoly power has been government assistance, direct and indirect. Numerous examples of reasonably direct government assistance have been cited above. The indirect assistance to monopoly consists of measures taken for other purposes which have as a largely unintended effect the imposition of limitations on potential competitors of existing firms. Perhaps the three clearest examples are tariffs, tax legislation, and law enforcement and legislation with respect to labor disputes.

Tariffs have of course been imposed largely to "protect" domestic industries, which means to impose handicaps on potential competitors. They always interfere with the freedom of individuals to engage in voluntary exchange. After all, the liberal takes the individual, not the nation or citizen of a particular nation, as his unit. Hence he regards it just as much a violation of freedom if citizens of the United States and Switzerland are prevented from consummating an exchange that would be mutually advantageous as if two citizens of the United States are prevented from doing so. Tariffs need not produce monopoly. If the market for the protected industry is sufficiently large and technical conditions permit many firms, there can be effective competition domestically in the protected industry, as in the United States in textiles. Clearly, however, tariffs do foster monopoly. It is far easier for a few firms than for many to collude to fix prices, and it is generally easier for enterprises in the same country to collude than for enterprises in different countries. Britain was protected by free trade from widespread monopoly during the nineteenth and early twentieth centuries, despite the relatively small size of her domestic market and the large scale of many firms. Monopoly has become a much more serious problem in Britain since free trade was abandoned, first after World War I and then more extensively in the early 1930's.

The effects of tax legislation have been even more indirect yet not less important. A major element has been the linkage of the corporate and individual income tax combined with the special treatment of capital gains under the individual income tax. Let us suppose a corporation earns an income of $1 million over and above corporate taxes. If it pays the whole million dollars to its stockholders as dividends, they must include it as part of their taxable income. Suppose they would, on the average, have to pay 50 per cent of this additional income as income tax. They would then have available only $500,000 to spend on consumption or to save and invest. If instead the corporation pays no cash dividends to its stockholders, it has the whole million dollars to invest internally. Such reinvestment will tend to raise the capital value of its stock. Stockholders who would have saved the funds if distributed can simply hold the stock and postpone all taxes until they sell the stock. They, as well as others who sell at an earlier date to realize income for consumption, will pay tax at capital gains rates, which are lower than rates on regular income.

This tax structure encourages retention of corporate earnings. Even if the return that can be earned internally is appreciably less than the return that the stockholder himself could earn by investing the funds externally, it may pay to invest internally because of the tax saving. This leads to a waste of capital, to its use for less productive rather than more productive purposes. It has been a major reason for the post-World-War-II tendency toward horizontal diversification as firms have sought outlets for their earnings. It is also a great source of strength for established corporations relative to new enterprises. The established corporations can be less productive than new enterprises, yet their stockholders have an incentive to invest in them rather than to have the income paid out so that they can invest it in new enterprises through the capital market.

A major source of labor monopoly has been government assistance. Licensure provisions, building codes, and the like, discussed above have been one source. Legislation granting special immunities to labor unions, such as exemption from the anti-trust laws, restrictions on union responsibility, the right to appear before special tribunals, and so on, are a second source. Perhaps of equal or greater importance than either is a general climate of opinion and law enforcement applying different standards to actions taken in the course of a labor dispute than to the same actions under other circumstances. If men turn cars over, or destroy property, out of sheer wickedness or in the course of exacting private vengeance, not a hand will be lifted to protect them from the legal consequences. If they commit the same acts in the course of labor dispute, they may well get off scot free. Union actions involving actual or potential physical violence or coercion could hardly take place if it were not for the unspoken acquiescence of the authorities.

3. *Private Collusion* The final source of monopoly is private collusion. As Adam Smith says, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."[3] Such collusion or private cartel arrangements are therefore constantly arising. However, they are generally unstable and of brief duration unless they can call government to their assistance. The establishment of the cartel, by raising prices, makes it more profitable for outsiders to enter the industry. Moreover, since the higher price can be established only by the participants' restricting their output below the level that they would like to produce at the fixed price, there is an incentive for each one separately to undercut the price in order to expand output. Each one, of course, hopes that the others will abide by the agreement. It takes only one or at most a few "chiselers" — who are indeed public benefactors — to break the cartel. In the absence of government assistance in enforcing the cartel, they are almost sure to succeed fairly promptly.

The major role of our antitrust laws has been to inhibit such private collusion. Their main contribution in this respect has been less through actual prosecutions than by their indirect effects. They have ruled out the obvious collusive devices — such

[3] *The Wealth of Nations* (1776), Bk. I, chap. x, Pt. II (Cannan ed. London, 1930), p. 130.

as the public get-together for this specific purpose—and have therefore made collusion more expensive. More important, they have reaffirmed common law doctrine that combinations in restraint of trade are unenforceable in the courts. In various European countries, the courts will enforce an agreement entered into by a group of enterprises to sell only through a joint selling agency, committing the enterprises to pay specified penalties if they violate the agreement. In the United States, such an agreement would not be enforceable in the courts. This difference is one of the major reasons why cartels have been more stable and widespread in European countries than in the United States.

APPROPRIATE GOVERNMENT POLICY

The first and most urgent necessity in the area of government policy is the elimination of those measures which directly support monopoly, whether enterprise monopoly or labor monopoly, and an even-handed enforcement of the laws on enterprises and labor unions alike. Both should be subjected to the antitrust laws; both should be treated alike with respect to laws about the destruction of property and about interference with private activities.

Beyond this, the most important and effective step toward the reduction of monopoly power would be an extensive reform of the tax laws. The corporate tax should be abolished. Whether this is done or not, corporations should be required to attribute to individual stockholders earnings which are not paid out as dividends. That is, when the corporation sends out a dividend check, it should also send a statement saying, "In addition to this dividend of ——— cents per share, your corporation also earned ——— cents per share which was reinvested." The individual stockholder should then be required to report the attributed but undistributed earnings on his tax return as well as the dividend. Corporations would still be free to plough back as much as they wish, but they would have no incentive to do so except the proper incentive that they could earn more internally than the stockholder could earn externally. Few measures would do more to invigorate capital markets, to stimulate enterprise, and to promote effective competition.

Of course, so long as the individual income tax is as highly graduated as it is now, there is strong pressure to find devices to evade its impact. In this way as well as directly, the highly graduated income tax constitutes a serious impediment to the efficient use of our resources. The appropriate solution is the drastic scaling down of the higher rates, combined with an elimination of the avoidance devices that have been incorporated in the law.

SOCIAL RESPONSIBILITY OF BUSINESS AND LABOR

The view has been gaining widespread acceptance that corporate officials and labor leaders have a "social responsibility" that goes beyond serving the interest of their stockholders or their members. This view shows a fundamental misconception of the character and nature of a free economy. In such an economy, there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. Similarly, the "social responsibility" of labor leaders is to serve the interests of the members of their unions. It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest is, to quote Adam Smith again, "led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good."[4]

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine. If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is? Can they decide how great a burden

[4] *Ibid*, Bk. IV, chapter ii, p. 421.

they are justified in placing on themselves or their stockholders to serve that social interest? Is it tolerable that these public functions of taxation, expenditure, and control be exercised by the people who happen at the moment to be in charge of particular enterprises, chosen for those posts by strictly private groups? If businessmen are civil servants rather than the employees of their stockholders then in a democracy they will, sooner or later, be chosen by the public techniques of election and appointment.

And long before this occurs, their decision-making power will have been taken away from them. A dramatic illustration was the cancellation of a steel price increase by U.S. Steel in April 1962 through the medium of a public display of anger by President Kennedy and threats of reprisals on levels ranging from anti-trust suits to examination of the tax reports of steel executives. This was a striking episode because of the public display of the vast powers concentrated in Washington. We were all made aware of how much of the power needed for a police state was already available. It illustrates the present point as well. If the price of steel is a public decision, as the doctrine of social responsibility declares, then it cannot be permitted to be made privately.

The particular aspect of the doctrine which this example illustrates, and which has been most prominent recently, is an alleged social responsibility of business and labor to keep prices and wage rates down in order to avoid price inflation. Suppose that at a time when there was upward pressure on prices—ultimately of course reflecting an increase in the stock of money—every businessman and labor leader were to accept this responsibility and suppose all could succeed in keeping any price from rising, so we had voluntary price and wage control without open inflation. What would be the result? Clearly product shortages, labor shortages, gray markets, black markets. If prices are not allowed to ration goods and workers, there must be some other means to do so. Can the alternative rationing schemes be private? Perhaps for a time in a small and unimportant area. But if the goods involved are many and important, there will necessarily be pressure, and probably irresistible pressure, for governmental rationing of goods, a governmental wage policy, and governmental measures for allocating and distributing labor.

Price controls, whether legal or voluntary, if effectively enforced would eventually lead to the destruction of the free-enterprise system and its replacement by a centrally controlled system. And it would not even be effective in preventing inflation. History offers ample evidence that what determines the average level of prices and wages is the amount of money in the economy and not the greediness of businessmen or of workers. Governments ask for the self-restraint of business and labor because of their inability to manage their own affairs—which includes the control of money—and the natural human tendency to pass the buck.

One topic in the area of social responsibility that I feel duty-bound to touch on, because it affects my own personal interests, has been the claim that business should contribute to the support of charitable activities and especially to universities. Such giving by corporations is an inappropriate use of corporate funds in a free-enterprise society.

The corporation is an instrument of the stockholders who own it. If the corporation makes a contribution, it prevents the individual stockholder from himself deciding how he should dispose of his funds. With the corporation tax and the deductibility of contributions, stockholders may of course want the corporation to make a gift on their behalf, since this would enable them to make a larger gift. The best solution would be the abolition of the corporate tax. But so long as there is a corporate tax, there is no justification for permitting deductions for contributions to charitable and educational institutions. Such contributions should be made by the individuals who are the ultimate owners of property in our society.

People who urge extension of the deductibility of this kind of corporate contribution in the name of free enterprise are fundamentally working against their own interest. A major complaint made frequently against modern business is that it involves the separation of ownership and control—that the corporation has become a social institution that is a law unto itself, with irresponsible executives who do not serve the interests of their stockholders. This charge is not true. But the direction in which policy is now moving, of permitting corporations to make contributions for charitable purposes and allowing deductions for income tax, is a step in the direction of creating a true divorce between ownership and control and of undermining the basic nature and character of our society. It is a step away from an individualistic society and toward the corporate state.

Chapter IX

Occupational Licensure

THE OVERTHROW OF the medieval guild system was an indispensable early step in the rise of freedom in the Western world. It was a sign of the triumph of liberal ideas, and widely recognized as such, that by the mid-nineteenth century, in Britain, the United States, and to a lesser extent on the continent of Europe, men could pursue whatever trade or occupation they wished without the by-your-leave of any governmental or quasi-governmental authority. In more recent decades, there has been a retrogression, an increasing tendency for particular occupations to be restricted to individuals licensed to practice them by the state.

These restrictions on the freedom of individuals to use their