

Robert A. SIRICO, CSP

## “BUREAUCRATIC WAYS OF THINKING” The Spiritual Cost of the Mixed Economy

*The term “bureaucratic ways of thinking” contrasts directly with “a society of free work, of enterprise, and of participation”. The first is associated with the institutions of politics, which creates wasteful agencies that are centred on their own survival rather than the needs of society. The second is associated with the institutions of a properly ordered free society, which attempts to find a place within the division of labour for every person, and integrate each person’s particular talents toward the service of others.*

### I

The market economy and the free enterprise system have long been on the receiving end of criticism, both popular and academic. Surprisingly, this remains true even after the events of 1989 demonstrated that centrally-planned socialism is both economically undesirable and politically insupportable. Looked at from a purely empirical point of view, the virtues of the market have won the debate, yet free enterprise continues to require constant apology.

In Germany, Sweden, Britain, Italy, and the United States, measures are being taken to diminish the size and scope of welfare redistributionism, as well as to diminish the burden it places on the public purse. Yet so far these steps have been relatively minor, and most politicians and academics consider welfare reform as a resort made necessary by the enormity of the problem of class stagnation. It does not represent a desire to replace government provision of welfare with voluntary charity; nor does it represent a renewed faith in the matrix of voluntary trade as superior to centrally orchestrated and coercive forms of charity.

Neither has the collapse of socialism manifested itself in significant changes in economic policy in the West. Western governments have not dismantled the socialist structures in their economies. West Germany was ideally positioned to see the catastrophic consequences of state planning in East Germany, yet German unification ended up expanding the level of taxation and government spending in the newly united Germany. To the extent that Western governments have found it necessary to engage in market-oriented reforms, the justification usually relates to fiscal necessity, and not to a sense of the otherwise impracti-

cal nature of intervention, and certainly not from the moral imperative of the freedom of ownership, control, and trade of private property.

In the United States, every six months or so since the Soviet government fell apart and its allied socialist governments were overthrown, Congress has passed laws that favour a democratic version of the centrally-planned approach to solving social and economic problems. Such legislation in the U.S. includes the Americans with Disability Act, the Family Leave Act, a national service programme, ceilings on corporate pay, and even more progressive income taxation. This small list only begins to tell the story. The Clinton administration currently lobbies for substantially increasing the presence of the federal government in the U.S. system of medical provision, the industry which comprises one-seventh of total output.

Indeed, the propensity to control and hamper free enterprise knows no partisan bounds in the United States. Levels of regulations, taxation, and spending have increased under the leadership of both major political parties. The result has been a systematic move away from private management, private property, and private exchange, toward socialized (collectivist or state) management, property, and exchange. What partly accounts for this tendency is, no doubt, that interventionism grants perks and power to those who are in control of the central-planning bureaucracy, and to the special interests who lobby them. Yet because in a democracy government must rely on the consent of the governed, we must also point to popular opinion as a culprit. Anti-capitalism is not only an ideology kept alive in academic departments of literature, sociology, and religion; it is also a governing philosophy on the part of a substantial part of the electorate.

What, then, are the objections to the market economy, or to capitalism, which remain an impediment to comprehensive reform? Economists, theologians, and journalists widely think of the market economy, on balance, as wasteful, anarchistic, directionless, and harmful to the environment. Most of all, the market economy, even more than socialism, is considered to be a degrader of cultures and the genesis of greed, both of which war against spirituality and inner-growth. Partially for that reason, a minister of state in most parts of the world, with a salary drawn from public money, still has more moral authority and social status than a successful businessperson or a cleric. This is an informal yet reliable measure of the society's sympathy or hostility toward the market economy.

Our present bind is this: We no longer hold to the naive belief that socialism and central planning can solve our social problems; yet we are not sufficiently convinced of capitalism's merits to entrust the market to address our social problems to a greater extent than we have thus far allowed. To say we favour a mixed economy does not mean we are able to name what its ingredients should be, especially not when the recipe changes at the whims of regula-

tors and politicians. As a politically unstable system of economic management, the mixed economy is always tending toward more markets or more central control.

## II

In this debate, the spiritual and moral components of alternative economic arrangements have not drawn a sufficient amount of attention. The spiritual and moral dimension of economic life was addressed in Pope John Paul II’s brilliant encyclical *Centesimus annus* issued on the hundredth anniversary of *Rerum novarum*. *Centesimus annus* provides no blueprint for economic reform. To do so would neither befit the office of the Holy See nor be concordant with prior statements concerning the economic life of nations. “Models that are real and truly effective can only arise within the framework of different historical situations” (No. 43). Yet in the course of developing the Church’s teaching on economic life, the Pope does provide instructive moral and sometimes practical guidelines to assist society in its quest for a just ordering of economic life. His statement is worthy of our careful consideration.

The subject which the Pope addresses in his statement impinges on choices we confront in our contemporary world as regards economics and its affect on social organization. *Centesimus annus* is an attempt to develop the social teaching of the Church in light of the historic events which brought down socialist regimes in Eastern Europe. Among other factors, the Pope attributes their downfall to a necessary “consequence of the violation of the human rights, to private initiative, to ownership of property and to freedom in the economic sector” (No. 24). “That is why,” says the Pope, “I wish this teaching to be made known and applied in the countries which, following the collapse of «real socialism,» are experiencing a serious lack of direction in the work of rebuilding” (No. 56).

The Pope is thus unambiguously hostile to the statist systems of political and economic organization which collapsed in 1989, and he reminds the faithful that the Church continues to hold to the teaching of *Rerum novarum*, which is “opposed to state control of the means of production, which would reduce every citizen to being a «cog» in the state machine.” In addition, the Pope supports the teaching of “subsidiarity” which emphasizes that the defence of the weakest elements in society, meaning the unemployed worker, the aged, the sick, and the children (No. 15) is best undertaken by those closest to the problem.

Certain attributes of work in the market economy lend themselves to a greater institutional recognition of the rights violated under those systems so explicitly repudiated by Papal social teaching. First, the freedom of work and labour is an essential part of a fruitful life of social cooperation, because “a

person's work is naturally interrelated with the work of others." Second, the community of work needs the freedom to develop largely independently of government direction because "it is through work that we, using our intelligence and exercising our freedom, succeed in dominating the earth and making it a fitting home." Third, the freedom of work is essential to fulfilling the moral duty of serving others because "work is work with others and work for others; it is a matter of doing something for someone else" (No. 31).

These three elements – cooperation, freedom, and service – are the foundation of the Pope's moral teaching as regards work and economic life itself, none of which are noticeable traits under statist systems of economic organization.

The obligation to earn one's bread by the sweat of one's brow also presumes the right to do so. A society in which this right is systematically denied, in which economic policies do not allow workers to reach satisfactory levels of employment, cannot be justified from an ethical point of view, nor can that society attain social peace (No. 43).

For this reason:

the modern *business economy* has positive aspects. Its basis is human freedom exercised in the economic field, just as it is exercised in many other fields. Economic activity is indeed but one sector in a great variety of human activities, and like every other sector, it includes the right to freedom, as well as the duty of making responsible use of freedom (No. 32).

The Church is evidently more enthusiastic with regard to the institutions of a free economy today than it has been in previous authoritative statements during the last one hundred years. This is because

there are specific differences between the trends of modern society and those of the past, even the recent past. Whereas at one time the decisive factor of production was *the land*, and later capital – understood as a total complex of the instruments of production – today the decisive factor is increasingly *the person*, that is, one's knowledge, especially one's scientific knowledge, one's capacity for interrelated and compact organization, as well as one's ability to perceive the needs of others and to satisfy them (No. 32).

The Pope recognizes that "the free market is the most efficient instrument for utilizing resources and effectively responding to needs" (No. 34). As against the pervasive reality of economic oppression, the Pope proposes "a society of *free work of enterprise, and of participation*" (No. 35). The Church "acknowledges the legitimate *role of profit* as an indication that a business is functioning well. When a firm makes a profit, this means that productive factors have been properly employed and corresponding human needs have been duly satisfied"

(No. 35). Thus, in place of socialism, the Church proposes “an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector...” (No. 42).

The Pope cannot endorse capitalism as that term is sometimes understood. He rejects any system “in which freedom in the economic sector is not circumscribed within a strong juridical framework which places it at the service of human freedom in its totality and sees it as a particular aspect of that freedom, the core of which is ethical and religious...”(No. 42). In particular, the Pope rejects consumerism, the doctrine that material pursuits need not be circumscribed by “a comprehensive picture of the person which respects all the dimensions of his being and which subordinates his material and instinctive dimensions to his interior and spiritual ones” (No. 36).

Yet this materialism or consumerism is not always associated with the institutions of capitalism. The Pope wants us to understand the ways in which government policies themselves can contribute to the diminution of freedom, and subtract from the free development of spiritual life. He cautions against “enlarging excessively the sphere of state intervention to the detriment of both economic and civil freedom” (No. 48). This is not abstract danger, but rather one that confronts the contemporary world.

In recent years the range of such intervention has vastly expanded, to the point of creating a new type of state, that so-called “Welfare State.” Its “malfunctions and defects” are “the result of an inadequate understanding of the tasks proper to the State” (No. 48).

The Pope levels a direct hit against the interventionism which dominates almost every Western economy commonly called capitalist. The Pope says:

By intervening directly and depriving society of its responsibility, the Social Assistance State leads to a loss of human energies and an inordinate increase of public agencies, which are dominated more by bureaucratic ways of thinking than by concern for serving their clients, and which are accompanied by an enormous increase in spending (No. 48).

The term “bureaucratic ways of thinking” contrasts directly with “a society of free work, of enterprise, and of participation.” The first is associated with the institutions of politics, which creates wasteful agencies that are centred on their own survival rather than the needs of society. The second is associated with the institutions of a properly ordered free society, which attempts to find a place within the division of labour for every person, and integrate each person’s particular talents toward the service of others.

In defining the terms the way he has, the Pope has made an extraordinary contribution to the conventional understanding of terms like *homo economicus*, or “economic man”, and encourages us to revise our understanding

of the nature of politics. He is suggesting we think more realistically about the way that the business economy actually operates and contrasts that with the way that political interventionism actually operates. This new understanding needs to be picked up and applied to revise specific ways in which we use terms when speaking about economic reform both in the East and West.

### III

In the United States, we are currently debating a series of policies involving new and higher levels of government spending and regulation. In this debate, the opponents of more government have been put on the defensive simply because of the language chosen by those who want to broaden government's power. All new spending, no matter how small the actual number of beneficiaries may be, has been labeled as "investment." The question is put to us: do we favour more "investment" or less "investment." In the same way, new redistributionist programmes have been sold as "insurance." The question is put to us: do we want more "insurance" or less "insurance." Put that way, the choice is meant to become obvious.

The choice of terms like "investment" and "insurance" over more traditional terms like spending and welfare is a consequence of political calculation. They tap into certain popular assumptions about the relationship between government policy and markets, assumptions that the letter and spirit of *Centesimus annus* suggest we revise. Investment, for example, implies that the long-run payoff of a particular programme will exceed up-front expenditures. This is because when we spend, our resources are lost to us. But when we invest in the future, we get a greater return on our money. When politicians replace the word spending with the word investment, they are leading us to believe that government is actually more capable, in a particular case, than the market of knowing what is to the long-run benefit of society. Otherwise money would be best kept in private hands and invested in private markets.

The same implication – that the public sector is superior at conserving resources and forecasting the future – is at the heart of the term "insurance" as politics uses the term. In private markets, insurance is always designed to overcome the risk and uncertainty of the future. For example, a person may drive his whole life and never get into an auto-accident. But because no one can know the future with absolute certainty, this person buys insurance against the damage that may or may not be entailed in an auto-accident that may or may not happen. The purchase of insurance is an act we take to help guard against an unknowable future.

When we say the government should introduce a constant stream of "insurance", we are entrusting it to continuously guard against an uncertain future. Even more crucially, we are making the tacit assumption that government is

consistently more prepared to guard against the risk inherent in economic life than are private insurance companies. Consider that government insurance does not work the way private insurance does, in that government insurance does not fully take account of risk. Its operations do not rely on profit-and-loss accounting techniques; government need only focus on balancing a constant stream of receipts with a constant stream of payments. By naming old-age pensions and nationalized medical care “insurance,” politicians are tempted to play upon public fears about an uncertain future and the universal desire for security. For this reason, among others, we should take seriously the Pope’s teaching that when the state assumes a function from the market, it “must be as brief as possible, so as to avoid removing permanently from society and the business system the functions which are properly theirs...” (No. 48).

Given what we have learned about socialism from the events of 1989, and what we know about our increasingly person-centred economy, why do we continue to regard the government as being more capable than the market of overcoming future uncertainties? Why do we so infrequently grant that the market and private entrepreneurship are more far-seeing and future-oriented than government with its “bureaucratic ways of thinking?” Markets are denounced for their short-term greed all the time. But how often is government criticized on the same grounds? Or even more to the point, how often do we hear the short-term avarice of government contrasted with the long-term orientation of the corporation or the small businessman?

Indeed, the promise of security and long-run orientation is the primary promise of governments that manage mixed economies. To be sure, the promise of security is a less ambitious promise than the socialists once made. The socialists said they would insure a scientific organization of the productive forces of society (which, of course, requires almost total state ownership), and that they would insure a just distribution of the annual social income. The first promise has been broken many times over. The second promise fails because the attempt to equally redistribute wealth destroys any incentive to work and private enterprise.

The modern mixed economy does not make either of these promises in such bold strokes. Instead, it promises to be better at overcoming uncertainty, discovering the contents of the black box we call time, and being more long-run oriented than free markets can be. In this theory, markets are so blinded by immediate profits they fail to see what is in the long-term interest of people. The claim is made that government can overcome, or at least harness and redirect, the failings of Economic Man.

The promise of security, investment, and insurance from public spending is the very basis of the covenant the public is asked to make with the mixed economy. The state’s claim is that it can overcome time and uncertainty so people do not have to be held hostage to the risks associated with its passage;

this is a major source of the interventionist government's authority and status in the world today.

The great promise of the mixed economy and the bureaucratic welfare state – the one explicitly rejected in *Centesimus annus* – cannot be found in the writings of Marx, Lenin, Stalin or Mao. Instead, this is a contribution of Western economic planners. In particular, it was a view made mainstream by the work of John Maynard Keynes to the political economy of statecraft. As we know, Keynes never explicitly advocated that capitalism be overthrown. In popular terminology, he merely sought to save it from its own internal failings. And what were those failings? In his mind, there were many: the price system did not work properly, the propensity to save slows economic growth, markets generate business cycles, workers would not allow wages to reach a market equilibrium, plus many others. All of those were technical points<sup>1</sup> that are still being debated by economists.

Much more fundamentally, however, Keynes assumed that economic man, a private actor under free-markets conditions, is likely to make more mistakes forecasting the future than would public servants and economist working for the right kind of government. Keynes never wrote more clearly than he did in the last chapter of his classic work *The General Theory of Employment, Interest, and Money*<sup>2</sup>:

The foregoing theory is moderately conservative in its implications. For whilst it indicates the vital importance of establishing certain controls in matters which are now left in the main to individual initiative, there are wide fields of activity which are unaffected. The State will have to exercise *a guiding influence* on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, or partly, perhaps, in other ways.

Furthermore, it seems unlikely that the influence of banking policy or the rate of interest will be sufficient by itself to determine an optimum rate of investment. 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 of devices by which public authority will cooperate with private initiative.<sup>3</sup>

Here we have the primary conclusion of Keynes' great classic, and the most striking policy proposal in the entire book stated with clarity. The government

<sup>1</sup> H. H a z l i t t, *The Failure of the "New Economics"*, New Rochelle 1959; H. H a z l i t t, *The Critics of Keynesian Economics*, Lanham, MA 1983.

<sup>2</sup> J. M. K e y n e s, *The General Theory of Employment, Interest, and Money*, New York 1936.

<sup>3</sup> *Ibid.*, pp. 337-338, with added emphasis.



must exercise a “guiding influence” through “a somewhat comprehensive socialization of investment.” Private markets, he thought, could not handle the task of investment. That is to say, the market could not take the appropriate steps to overcome future uncertainty without leading to a variety of imbalances and crises. This task must be turned over to less selfish and far-seeing public officials.

The appeal of Keynes was his conservatism, a word he uses above to describe the nature of his programme. He does not want to eliminate markets and capitalism. He does not want to eliminate private property, not even in the means of production. He merely wants to reign in the seedier side of economic man and replace him with political authority capable of correcting market errors. That is the primary contribution of Keynesian economics.

Keynes’s assumption that private markets cannot work to the general interest – certainly in the long run and certainly not to the degree that the government can – has had a profound influence on modern public policy. In voting for the government to “invest” social resources and provide “insurance” against future uncertainty, the public has accepted this Keynesian conjecture without much question. And though Keynes was the most conspicuous advocate of the view that Political Man is more future-oriented than Economic man, he was in the mainstream of contemporary thought at the time.

One year after Keynes’s volume appeared, Prentice Hall publishers put out a large volume entitled *The Planned Society: Yesterday, Today, and Tomorrow*, edited by Brooklyn College economics professor Findlay MacKenzie.<sup>4</sup> In it, Levis Mumford, then a popular author and social critic, writes that market economics is a “theology,” a “superstition,” and “its practical results were disastrous... Now the question that confronts us today is not if we shall plan but how we shall plan...” (pp. v-vi).

Levis C. Gray, the head economist of what is today the Department of Agriculture, wrote that “planning constitutes an attempt of the American people to find an intermediate ground between *laissez-faire* capitalism and socialism” (pp. 160-161).

Rudolf K. Michels, economics professor, Hunter College, is disdainful of private initiative and its supposed short-run thinking. He writes:

In the long run, all these ends, which contribute to the highest possible material and spiritual standard of living, may be realized only as a result of long-time plans and policies which will require a change in our economic system... [It] is necessary to introduce a system in which the economic policy is carried out in the interests of the general social wel-

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<sup>4</sup> F. M a c K e n z i e, *The Planned Society: Yesterday, Today, and Tomorrow*, New York 1937.

fare rather than for private gain. In all probability such an attempt will involve more deliberate economic control and planning (pp. 387-388).

Benito Mussolini was also a contributor to the volume, being a well-respected planner throughout much of the thirties. He writes that "the state is not only a living reality of the present, it is also linked with the past and above all with the future, and thus transcending the brief limit of individual life, it represents the immanent spirit of the nation" (p. 811).

The last statement is only the most extreme statement, to regard Political Man as superior to Economic Man, and Mussolini's Fascism is now, unlike in the 1930s, widely unpopular. But have his assumptions about the short-run orientation of private markets, of the greed of Economic Man and the futurism of the State, been repudiated? Not really. Hardly a day goes by when we are not told of corporations who put short-run profit ahead of long-term investment, and of consumers who unthinkingly plan for today but not for tomorrow.

The State is still widely considered the corrective for the short-sightedness of the market. The State is constantly involved in redirecting the product of private markets towards other ends which are supposed to be more in the general interest. What politician does not claim that though his program may cost more today, it will save money in the long run? The implied assumption is that private enterprise may appear to be more efficient today, but only the State can know what is good for tomorrow.

In all these writings we find an assumption dealing with the passage of time in an uncertain future. I contend that this aspect of the planning mentality still maintains its hold over the public mind. We tolerate private enterprise so long as it is correctly forecasting the future. But on the occasion of business failure, when profits are no longer running in a desirable direction, we turn to the state for answers. When we think of the uncertainties of old-age, we turn to the state to care for us. We fear sudden sickness or disease, so we call for a medical system that elevates the state to the status of national healer. We think of the market as being only interested in short-run maximizing, and this is tolerable, so far as it goes. But when we really want to overcome the terrible fear that comes with not knowing what tomorrow will bring, we look to the government, which we hope is relatively better at dealing with the risks of social life and enterprise.

Even today, modern man assumes that private business people and consumers conduct their affairs with blindfolds on their eyes, whereas government must have a secret chamber with a crystal ball to know where destiny is taking us and special powers to marshal resources to grant us all a more secure future. This aspect of the planning mentality is all-pervasive. This is an error with grave consequences. It prevents us from applying the insight that freedom, the business economy, and responsibility for the future can be linked without the aid of the Planning State or Social Assistance.

IV

The common assumptions about the government’s ability to overcome uncertainties, and the market’s tendency to enhance them are not only wrong, these assumptions are inverted. Let us first consider whether government in the types of interventionism that really exist is indeed oriented toward the future. And in discussing this I will assume we are speaking about institutions of a modern democracy. (An entirely different argument would be required to address the problem of monarchies.)

What constitutes the interventionist state in a democracy? We use the term to identify the collective mind of those who administer its affairs on a day-to-day basis. Politicians are the most conspicuous actors in this regard. In what sense can their daily concerns be considered future oriented? Their first order of business is too often the desire to get into office and stay there. That means relying on the initial and continued support of constituents.

Politicians need not necessarily concern themselves with the general interest or the future beyond the next election season. Politicians need to provide their regional constituents with what they want so these voters will pull the appropriate lever in the next election. This mindset can even lead to “the corruption of public officials and the spread of improper sources of growing rich...” (No. 48). Scholastic economist Juan de Mariana noted “how sad it is for the republic and how hateful it is for good people to see those who enter public administration when they are penniless grow rich and fat in public service.”<sup>5</sup>

This is not to say that politicians never act in the general long-run interest of the common good, only that the incentive structure of their office leads them to be less inclined to serve the common good than to serve their own private interest. An entire school of economics, the Virginia Public Choice School of Gordon Tullock and James Buchanan, has grown up around that insight.

Public officials whose jobs do not require voter approval face a slightly different set of incentives which still do not orientate their minds to the long-run. Being self-interested, they are not inclined to engage in actions that are in the general interest if those actions are likely to affect their job status. If, for example, every employee in the Department of Energy suddenly concludes it would be far better for the country if energy were regulated by private industry rather than the central government, the incentive structure of the agency would not suggest they resign *en masse*. It is remotely possible under the right cultural conditions that they would, but it is much more in their interest to maintain the fiction that private enterprise and the general public would be helpless without their efforts.

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<sup>5</sup> A. A. C h a f u e n, *Christians for Freedom: Late Scholastic Economics*, San Francisco 1986, p. 65.

The discreet choices these actors face on a day-to-day basis do not lend themselves to the thinking about the future. Their concerns are much more concretely related to their individual lives: getting along with the supervisor, maintaining the bureau's budget and ensuring its growth, getting a bigger and better office, finishing the tasks, however mundane, in the week's line-up, and the like. This has essentially nothing to do with sitting far above the affairs of enterprise and dispensing orders to the private economy more in accord with the needs of the next generations. A typical bureaucrat thinks more about quitting time than maximizing social welfare. They are guided by bureaucratic ways of thinking.

The incentives and constraints faced by the judiciary in attempting to think about the long term is far more difficult to establish and evaluate. But it would indeed be naive to think that judges are necessarily better forecasters of the future than, say, commodity futures traders. Judges are there to interpret the law and judge others' actions by them, not to create government plans for investing in the future. As far as an overall evaluation of government is concerned, the judiciary may be the least short-term oriented of all aspects of the state. At the same time, judges are an integral part of the institutional structure of the state whose predominate time frame is toward short-term ways of thinking.

Thus even in this cursory survey, we see that the state is not an amorphous spiritual being capable of knowing the future better than those outside the state apparatus. It is composed of real people, flesh and blood, who act and react to the institutional setting in which they are employed. The institutional setting of the state is primarily occupied with internal concerns and not those of the public, as anyone who has had to deal with the Post Office knows. The assumption, then, that government can and should plan for our future must immediately confront the concrete reality that actors in the government sector are not so much interested in preparing for the future of the general society as they are in satisfying the immediate needs of those who lord over their budget, namely politicians and bureaucrats in positions of higher authority.

As a consequence, the interventionist government is pervaded by the short-run orientation that *Centesimus annus* so forcefully decries. In fact, most of the adjectives commonly used to describe businessmen and investors in the private sector can be applied with equal or even greater validity to the employees of the state. If you run through the litany – which includes words like greedy, selfish, short-sighted, wasteful, and narrow – you can easily imagine how these terms could apply to employees of government. With government lacking an effective means to correct the mistakes and vices of its employees, these attributes tend to be exaggerated in the public sector. It then becomes our task to weight the relative merits of an activist government against the behaviour of market actors who are compelled by the nature of the business economy to work with others in the service of a more general social good.

## V

The market economy is the network of exchange and production that relies on voluntary contract of private property for the allocation of social resources. Its most conspicuous members include consumers, producers, and workers. The producer under capitalism is frequently considered the consummate Economic Man, narrowly focused on the short-term and deliberately forgetting the long term. Yet the businessperson's profits, operating in a free market, can come about only in one way: serving the consuming public. The capitalist may indeed be pursuing profits for himself and his family only, and not intend to be charitable with his proceeds. But in order to make profits, he must be other-directed, serving and even anticipating the needs and desires of the masses of people who are actual and potential purchasers of the products of enterprise.

A producer under capitalism faces constant incentives to overcome the uncertainties of the future through accurate forecasting. The owner of the vineyard is an example. The owner must till the soil and plant the vines many years before his land produces a grape that can be turned to wine for sale to the public. In the meantime, the owner must purchase capital, pay out wages, and forego income that could have been accumulated in the meantime. The same is true of an entrepreneur in the housing industry: he or she must purchase land and materials, pay out wages, and market his product long before any profits are seen for the endeavour. Even if an entrepreneur is involved in marketing trivial consumption goods (say potato chips), capital must be purchased and wages paid long before the product goes to market.

All of this necessarily requires a forward-looking mentality. Indeed, the entrepreneur is in many ways a seer. His profession is caught up in anticipating future events. He organizes the factors of production and assumes a large measure of the risks and uncertainties of business. This does not mean he is always right; his predictions may turn out to be incorrect after all. Yet the adoption of a present orientation lends itself to incorrect predictions and therefore failure in private enterprise. Profits come to those who can put aside the concerns of the present and anticipate what the world will be like in a month, a year, ten years, or maybe much longer. Producers must even invest in property that promises no return until even the next generation. Again, economic actors may be motivated to increase their bank accounts. Before any investment turns a profit, producers must look to the future, serve the public what it wants, and constantly monitor and tend their holdings. Only in this way can value be preserved and enhanced.

The producer in the business economy is often punished for thinking only about the short-run instead of the long-run. The capital invested in a product must be written off as a loss and the producer is poorer as a result. Society as

a whole, however, is only marginally poorer because producers risk their own money or those of others who have an equal incentive to forecast the future. Government actors face no such penalty when they make mistakes, but rather society at large bears the burden of their errors; resources forcibly extracted from the public and wasted, and this pushes aside private enterprises that might have arisen and flourished in their absence.

It has often been said that the development of civilization owes much to the deferral of gratification. The uncertainty of the future requires people to constantly put off gratification, and be cautious and frugal. The same cannot be said of government actors, who are more likely to waste for immediate satisfaction because the resources under their control are not theirs but society's at large. As Professor Alexander Smith, to whom I owe this essential insight, says:

A powerful case may be made for the proposition that people are more likely to defer present gratification for future ends in the pursuit of economic rather than political activities. This argument, of course, has powerful implications for those who profess a faith in the ability of governments to engage in long-run planning.<sup>6</sup>

What about the consuming public? The public sometimes seems to be entirely focused on present accumulation versus long-range planning. This is one aspect the consumerism that the Pope identifies. That being so, in private markets, however, it is also true insofar as these same people participate in the political process. It makes little sense, then, to condemn consumers for shortsightedness and then advocate that these people of the same nature be given positions in government to quell the short-term orientations of others.

In a market economy, even the consuming public faces incentives and constraints that push them toward long-run thinking. Individuals must face the consequences of debt individually. Even a declaration of private bankruptcy has the consequence of destroying a good credit rating, the most valuable commodity a person can possess in a capitalist economy. An interventionist government, on the other hand, can accumulate debt to a far greater extent than private enterprise or individual consumers. The government employs a lender of last resort to back up its credit in times of emergency and to secure its bonds against default. The penalty for excessive debt is paid by the public at large in the form of inflation.

In any case, in keeping with the idea of subsidiarity, the consumer is in a much better position to forecast individual economic needs than a distant government employee. Government employees may be able to forecast their own needs. But they cannot do so for others any more than private individuals

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<sup>6</sup> T. A. Smith, *Time and Public Policy*, Knoxville 1988, p. 107.

can forecast the needs of someone living in the next city or even next door. The constraints of scarcity and the passage of time make it impossible for consumers to completely focus on today without eventually facing the consequences down the road. Market actors have the consequences of short-term thinking visited on them in the long run, whereas government actors are often either unaffected (they get away with not “serving their clients”) or are even rewarded for short-term thinking (resulting in “an inordinate increase of public agencies” which is accompanied by “an enormous increase in spending”).

Perhaps the best example of future orientation in the market is the stock trader. His whole life is wrapped up in gathering and interpreting every bit of information currently available that could affect the future. The bond trader has to think about a space of time between one minute and thirty years. Current market prices for all securities are immediately affected by any change in resource availability, so people can adjust their habit of consumption to coordinate with anticipated availability in the future. None of these predictions of the future can be perfect, but officials within the public sector at any level are not likely to have the means at their disposal to adjust plans so quickly.<sup>7</sup> Indeed, it is the stock market that has made the Five-Year-Plan seem so anachronistic. No sooner have government planners developed their plan when the behaviour of free individuals shift the relevant data and to make the plan hopelessly outdated.

## VI

Joseph Schumpeter spoke of the overall forward-looking capacity of free markets as capitalism’s “socio-psychological superstructure,” deliberately echoing Marxian terminology.

Things economic and social move by their own momentum and the ensuring situations compel individuals and groups to behave in certain ways whatever they may wish to do – not indeed by destroying their freedom of choice but by shaping the choosing mentalities and by narrowing the list of possibilities from which to choose.<sup>8</sup>

In a mixed economy (or Really Existing Interventionism), most sectors of economic life are touched by politics and are affected by the shortsightedness of government action. The government itself becomes responsible for lowering the time horizons of the actors in private markets. When government grows in size, it induces the public toward short-term thinking and forces choices on

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<sup>7</sup> F. A. H a y e k, *The Fatal Conceit: The Errors of Socialism*, Chicago 1988.

<sup>8</sup> J. S c h u m p e t e r, *Capitalism, Socialism and Democracy*, New York 1942, pp. 129-130.

private actors that make what former budget director Richard Darman once called “now-nowism” much more beneficial than it really should be.

Let’s consider the example of inflation, which I will assume, in deference to Milton Friedman, to be an exclusively monetary phenomenon made possible by the institution of central banking. In an economy with a stable or falling price level, people can plan for the future with confidence. Under inflation, tomorrow’s dollars are worth less than today’s, so it is in everyone’s interest to consume while purchasing power remains high. Once inflationary fervour begins to feed on itself, there is no limit to how narrow people can become. They will deliberately drive themselves into debt since the debt can be paid later in cheaper dollars. The history of hyper-inflation is shot through with anecdotes about society turned upside down. People sacrifice a lifetime of saving in a day. They spend their children’s inheritance as if it were about to vanish.

Inflation makes people present-oriented – less virtuous and more childlike as a result. This childlike state of mind is imposed on them by a governmental policy of inflationary monetary management. The Pope makes special reference to the phenomenon of inflation in the context of arguing that markets cannot function well apart from certain institutional, juridical, and political conditions. In addition to “guarantees of individual freedom and private property,” there must be a “stable currency” as well (No. 48). Similarly, Mariana warned that “if we take the liberty of reducing the fineness of gold and silver” then “distrust will characterize domestic commerce, and a paralysis of production will necessarily follow, producing scarcity, high prices, poverty, confusion, disorder.”<sup>9</sup>

Yet inflation is not the only policy that has the effect of shortening time horizons. Any policy that diminishes the value of private wealth also makes saving and investing for the future less rewarding, and immediate materialism and consumerism more rewarding. High taxation, especially on capital gains, is a good example of this. If correct forecasts are punished through taxation, market actors face an incentive to use up resources on consumption. “The origin of poverty is high taxes,” wrote Spanish Scholastic Pedro Fernandez Navarette.<sup>10</sup> Policies like price and wage control make people more grasping and greedy, anxious to take what one can get now at the expense of others. The welfare state tempts people into taking leisure today instead of working for tomorrow’s economic security. The overly complicated legal structures inherent in economic regulation discourage free and open enterprise and cause despair of the future.

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<sup>9</sup> A. A. C h a f u e n, *Christians for Freedom*, *op. cit.* p. 86.

<sup>10</sup> *Ibid.*, p. 66.



All these policies are characteristic of the mixed economy as it actually exist in the real world. As our societies have undergone the slow transformation from free to regulated, from being based on private ownership to becoming Social Assistance States, from having stable money to being dominated by inflationary monetary policies, they have in general become more politicized. Being more politicized also means becoming more short-term oriented. When people are governed by a mixed economy, their behaviour becomes more characteristic of the selfish political actor unconcerned about the general interest and less concerned with the future as the profitable and socially-minded producer must be.

In a politicized society, people begin to develop an ethic of having rather than being, which is the genesis of the cultural decline. People begin to surrender a secure tomorrow for today’s pleasures, and pursue childish fancies rather acting maturely. The Pope speaks directly to this social and spiritual problem in contemporary life:

It is not wrong to want to live better; what is wrong is a style of life which is presumed to be better when it is directed towards “having” rather than “being,” and which wants to have more, not in order to be more but in order to spend life in enjoyment as an end in itself (*Centesimus annus*, No. 36).

It is also useful to think about policy disputes in modern political discussion as a dichotomy of short-run versus long-run, as Alexander Smith has argued.<sup>11</sup> When a politician lobbies for a new spending programme, whether or not he calls it “investment,” he hopes for immediate benefit for himself and the special interests he is serving. But those who are opposed to it may correctly see that the social problem may either be illusory or will solve itself in time better through private action. The opponent of new government spending may imagine the long-run good that will come from leaving those resources in the private sector, even if those benefits will not be seen until after the next election.

When the consequences of pervasive political action invade the domains more proper to private markets, it results in shortening of time horizons throughout the entire culture. If we want a society where people defer gratification, act prudently with resources, take care of property, and think about the next generation, we should be putting more social control in the hands of the private sector and its allied institutions of the family and community. We have seen how total state control of economic life has reduced whole populations to the status of hunter-gatherers, entirely consumed with having rather than being. The half-way mark between capitalism and socialism makes us all relatively more present-oriented and childlike than we need to be or would be under a properly governed and stable market economy composed of actors who pur-

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<sup>11</sup> T. A. S m i t h, *Time and Public Policy*, *op. cit.*, p. 97.

sue the good while improving themselves materially. In the end, of course, morality and conscience do not allow responsibility for selfishness to be placed anywhere but with ourselves, regardless of exogenous incentives.

## VII

The proper exercise of spirituality requires a proper conduct of our private lives. It requires that we think about others in our family and in our community and their long-run welfare. We should save not only for our own pleasure but also for our children and for their children. This is a proper exercise of moral virtue that comes from a serious sense of spirituality. The condition of natural liberty which results in the creation of a market economy reinforces a long-run orientation and proper ethics and spirituality.

Yet the mixed economy gets in the way of this desire to prepare for the future by taxing the proceeds of labour, inflating away savings, and excessively regulating economic opportunity. In this institutional setting, we lose opportunities for the proper exercise of goodness, generosity, and charity. By excessively intervening in economic affairs, the state can induce us toward not caring for these whom we should care for. It can cause us to fail in our obligations to till and keep the land and have dominion over the earth. Even worse, when the state assumes obligations more properly reserved to private action, we are tempted to disregard our obligations to our families and to others in need. By replacing markets with state action in many spheres, John Maynard Keynes's erroneous beliefs have exacted a high economic as well as spiritual cost.

If we continue to believe that the economic forces of the market cannot help us plan for the future, and continue to replace them with political forces under the illusion that the state can better plan for our future, we will continue to become present-oriented societies.

Let's think about the Parable of the Talents as told in the Gospel according to St. Matthew (25 : 14-30). When the master sent out his servants to use the talents he had bestowed upon them, they went out into a world open to enterprise and investment. The master praised the ones who earned a return on the talents and cast out the one who buried his talent.

Imagine the same parable under an inflationary mixed economy. We can imagine the responses of the servants upon returning. The first says, "Master, this is an inflationary economy. I spent my talents and went into debt because the return on capital does not exceed the increase in the price level." The second says, "Master, I spent all my talents on getting a license to practice business, paying my taxes, and getting past the health inspectors. There was none left to run a business, so my talents are gone." The third says, "Master, all my talents were taken by the social security system, and though I might be able to draw some money out in forty years, I have nothing now." Finally, the Fourth

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says, “Master, I buried my talent and here it is.” The Master would have to regard this fourth servant, the one who buried his talent, as the wisest one given that they confronted an over-regulated, over-controlled, and inflationary economic setting.

The point is this: there is an ethical and spiritual cost to entrusting the state with functions that are more proper to enterprise and entrepreneurs operating within a matrix of free exchange. Have we forgotten this, even in the wake of socialism’s manifest failure? I believe we have. Socialism may be gone, but the myths about the market that gave socialism such staying power are still with us.

There is essentially no reason for a properly ordered market economy to be on the defensive and to have to apologize for itself. We must begin the hard work of elevating the business economy to a higher social and moral status than the economy governed by the corruptions and greed of politics. The free market is not only more efficient and productive than all alternative economic systems, it is superior in helping us overcoming nature’s uncertainties and to plan for the future, as the right conduct of spirituality would have us do.