

CHAPTER IX

CAPITALISM AND SOCIALISM

Even though state mediation is often necessary, the ideal is that the parties to a contract determine the value of any economic activity on their own, under conditions of comparable effective socio-mercantile power, so that any agreement they achieve is considered equitable and therefore fosters a climate of peace. Today there is a tendency to accept an anti-concept which identifies the administration of justice with socialist measures. Capitalism is identified with the selfish pursuit of the individual good, and socialism with an idealistic quest for cooperation and the welfare of the group. In actuality, socialism is, above all, apartyularization. Although statism is always a feature of socialism, it may also occur within non-socialist schemes.

It is sheer calumny that under the capitalist system everything is wasted on superfluous articles while public needs are neglected. Any statistician can demonstrate that the basic needs of health, housing and education are better satisfied in the United States and West Germany than in the richest communist countries—which presumably live socialism at its fullest—and that most capital is reinvested. Demagogues will say, the state offers nothing, it is the people who pay. So what? Whether services are free or affordable makes no difference. In a collective economy, they say, all resources operate in the public sector and are available for education, defense and other matters without their being transferred there by means of taxation. But when the state is the sole owner of property, production is taxed directly practically at a rate of one hundred per

cent. The state then distributes at whim what has been taken away from producers, under the guise of wages and free services. As long as the amount is the same, it makes me neither richer nor poorer if whatever is taxed out of my production is termed a contribution to the common fund of the people. I would have to be crazy to prefer a collective economy which provides me with health, education and other services *for free*, plus ten dollars a month to spend on other things, over a free market economy which charges me one thousand dollars for those services, but allows me an income of twelve hundred dollars a month. One has to be impractical, confused or hypocritical, not moral, to do otherwise. Capitalism channels rationally the natural individualist disposition of man into social life. Private gain is not a lower ethical value than cooperation. Rather, they are not comparable in such an unqualified way. We cannot refer here to cooperation as the result of a humanist disposition, but as the result of particular economic undertakings organically considered.

From the time ages ago when man stopped living at the expense of nature and started working upon it, all human interaction in relation to sharing the production came to be determined in rational societies by the individual merits of each producer. Those imbued with socialist faith usually oppose the pragmatic point of view which holds that if the United States is wealthier than Great Britain, and the former developed under a capitalist system while the latter is only recently attempting to shake its rather socialist structure, we may postulate that capitalism works better than socialism. This is an oversimplification, of course, but at least the evidence points against postulating the opposite.

Accounting for the common labor

Save a few exceptions, no one can produce alone and isolated unless he can count on the resource of constitutive support contributed by society. In organic terms, if the whole of society did not protect the right to property over a certain piece of land, the individual could not hunt safely on it. Besides, the hunter relies on those who watch over the village so his home is safe when he returns. That is why he must share his production with the group. To borrow a concept from scholastic

economics, which fits quite well in our juridico-economic modes of civil society, the matter of (freely contracted) wages depends on *commutative justice* (that which regulates the relation between two people) while taxation is the concern of *distributive justice* (that which governs the relation between individuals and the state). The rationale underlying such a concept is found in the validation of the two great dialectical poles of society as subjects of right.

In a large society it is more difficult to appreciate how, for example, the security guard of a bank may contribute to the smooth operation of an automobile manufacturing plant, and yet they do. If those who guard the banks did not do their jobs and the banks were robbed, there would be no money to finance manufacturing plants. This example may be too direct and far from complete, but if we fill in the blanks the picture becomes clear: all of society is involved in the productive process—considered in its global aspect, of course, and not in relation to each specific item produced—from the politician and the soldier to the manufacturers themselves. Now then, if we refine what was said in chapter six, it should be apparent that the above does not refer to *constitutive support* but to specific labors which, although they are organically projected, they originate with the particular economic initiatives and take shape in the context of their customary mutual fulfillment, for which reasons their merit must be recognized through the market process. Thus, such support, which creates the state of right, holds as the main ideological basis for redistribution.

Group production is not characteristic of a collectivist system. It is the only way to produce in any society. But although each individual renders the same labor in generic terms, each one of them contributes differently to its function and development in the context of his particular contribution. That is why the recognition of individual right on the one hand and the need to redistribute the wealth through taxation on the other are both consistent with capitalist economics. Society places functional superstructures (institutions) from constitutive support at the service of the individual, and the individual must pay for that as long as society exists as a unit of right. Except in that it is a charge for financing the performance of organically demanded services (whose value cannot be the

object of mercantile negotiation), and that it may serve to compensate for the creation of socially significant values underappreciated in the market process, taxation would be immoral. Here I refer to an income tax on the productive cycle (including commerce and the rendering of private services), for most taxes are arbitrary enough. Although there is room for compromise here given the general legal role of society, the latter seems mainly entitled only to a share in increased wealth, which occurs paradigmatically only in productive activities. In the transfer of wealth through inheritance, for instance, the only productive action involved is that of the legal registration of such transfer, which only justifies taxing the attorneys' fees, the amount of wealth remaining even within the nucleus of right, which here is constituted by the will and those involved in its terms. The most important thing is to avoid an underhand usurpation through multi-level taxation. Otherwise we may start paying taxes for sleeping and for breathing. Also, real state and generative property (the means of production) must be free of such obligations since they have previously contributed their share to the common labor when taxes were paid on the money used to establish or acquire them, also with room for compromise on account of the first (communal) rights over the land.

The idea that taxes should be a voluntary payment to the state for services rendered, as Ayn Rand maintains in *The Virtue of Selfishness*, would end in the breach of contracts, where the injured party would not have recourse to a tribunal. It would mean the end of a state of right and the beginning of anarchy, or the need of an agreement to permit the rule of self-imposed justice as determined by agreement. I assume that is partly why the above author makes clear that voluntary financing of the government is the last in a series of measures, and would not be feasible today. She values the concept of administrative taxes (those which permit the state to function) only, not of redistributive ones, a somewhat obscure distinction since everything depends on just how far we stretch our idea of the function of the state. Besides, even though on the basis of biological reasons it would seem that individual labor is all there is, and that constitutive support is not a contribution but a simple presence, the state of right is not an accretive but an

integrative result: it remains constant no matter the number of formative units involved. That is, no one in particular can claim having created a part of it. Thus, its projection transcends any particular will. Moreover, whenever everyone must abide by a legal standard, it makes no sense to speak of dis-socialized individual labor. A society constituted only to guarantee free trade practices, would have no other standard of right than freedom of contract. This does not convey (nor is based on) a concept of society or the motive for its constitution on the basis of global furtherance, much less it exhausts the praxis of constitutive support. Unlike the particulars, the social dialectical pole cannot be fulfilled by the mere existence of liberties guaranteed by a state of right, thus demanding a share in the goods produced by the particulars. Common labor, then, is an organic phenomenon which projects back in organic, not mathematical equality. This is why, while everyone is assumed to render the same constitutive support, not everyone benefits from society's resources in the same manner. The above, however, does not violate juridical equality insofar as subsidies are equally accessible to all in the measure their provision is not limited to satisfying need, and include an assessment of the social merit and projection of the beneficiaries.

One alternative that seems attractive because it is susceptible of easy practical formulation, is state subsidizing of the demand for public services by means of tax-funded vouchers. The possibility of arbitrarily set fees is thus averted. Although the very right to self-fulfillment implies as much, individual freedom is preserved to invest beyond the amount subsidized in agencies of one's preference. On the other hand, and provided a constant amount of subsidizing resources, since demand is subsidized equally, allocating funds to those who have no need of them could mean a smaller amount available for those who do need them, and also an overall increase in taxes to finance such deficit, unless a sort of selective taxation is resorted to. And the need to give with the one hand and to take away with the other would only add to an already cumbersome bureaucracy. It would seem preferable in that case to limit access to the vouchers, and even better simply to demand evidence of financial need before granting free access to public services. Ascertaining the practicality and the relative worth

(the cost/benefit ratio) of this alternative would require a study beyond our expertise. Things are less complicated when it is a matter of subsidizing one single service—education is the usual model—since it becomes more feasible for the state to rearrange its fiscal resources. Still, reimbursing those whose fulfillment does not depend on it can be seen as one more legal loophole in a policy we will soon describe as right-wing. Such loopholes are not in themselves illegitimate, but they must be avoided if they become obstacles to the harmonious development of society. A redistributive policy based on tax-funded vouchers does not seem intrinsically just or unjust, and is less of ideological than of practical value.

In any case, the universal contribution implied in the constitution of a society must enable everyone to achieve a measure of human dignity, in whose absence no one would feel compelled to collaborate with others and constitute a political community. I am not defending here a contractual conception of right, just pointing out an obvious fact of social dynamics. Tribute is offered not just to guarantee free-trade practices, nor it means being unduly forced to support programs one does not want, as Misesian economists argue. Otherwise, and by extension, every particular, corporation, trade, guild, industry, ethnic group, province or region could demand their tribute to be invested as to fit their interests, or to be returned in benefits proportional to the amount paid, which makes the payment senseless. As we already mentioned in Chapter VI, taxpayers as isolated individuals do not hold rights over the resources that become common patrimony, which must be channeled so that society is developed organically, fostering the primary interests of the ethnos. And holistic realities cannot be fulfilled subject to any atomistic will within the totality. The complement to this would be to guarantee the freedom to achieve higher levels of personal fulfillment; absent this, many would not enter a political community either, at least not willingly. In general, any subsidizing practices must be limited to creating adequate conditions for members of society to demonstrate their talents in the market. If this is not done, the market may not be accessible (in a libertarian manner, free from unfair advantage) to everyone; if more than that is done, resources are diverted from a better economic use and

some are subsidized at the expense of the others. The three situations correspond respectively to the goals of nomocracy, oligarchy and socialism.

Now then, whether the wealth to be redistributed is demanded by the state or whether it is offered to the community in an act of collective solidarity is a matter of form, not spirit, in the sense that a social demand is always at play. In primitive societies, for example, some products (such as prey from the hunt) were often subject to the equivalent of a one hundred percent tax, although as a result of the need for survival, tribute was spontaneously offered. A tax voluntarily agreed to between individuals and the state constitutes a mismatch of parties and introduces a conflict between subsidiarity and a structure based on supply and demand. Therefore, just as a society demands from everyone the fulfillment of certain standards, and thus a support, it may not take away from anyone the organic enjoyment of benefits derived from such support. As we have said, even though formative support does not produce wealth by itself, a share of the production must accrue to it, for in its absence wealth could not be generated. Thus, for those who agreed to pay taxes, since their contribution would always have to go to benefit those who cannot, the end result would be practically the same as if payment had been demanded from them. We have come to assume that redistribution is tantamount to taking from some in order to give to others—since evidently someone is required to turn over money already in his hands, and since in the process of exchanging goods and services there has been a previous distribution in the market. Actually, taxes are deferred charges for collective labor, and redistribution is payment owed by the public treasury—I use the term redistribution, then, with that understanding. Even Nozick's notion of the minimal state implies an idea of abstract contributions, since it envisions providing everyone with taxfunded vouchers to finance a monopoly over the use of force—in other words, the state. The problem is that such vouchers can only be used to purchase from an ultraminimal state institution the protection everyone needs in order to ensure their market-related rights.* To Nozick, any state greater than the minimal one violates

*Nozick, R. *Anarchy, State, and Utopia*, pp.26-28. Basic Books, New York 1974.

human rights. Thus, other than financing a monopoly over the use of force, the proposed level of redistribution is limited to guaranteeing a situation where contracts can be freely entered into and adequately enforced, which does not exhaust, according to our criteria, the matter of justice.

Now then, the presence of unmet basic needs or huge economic differences does not in itself imply that some have failed to redistribute a part of their wealth which could best be utilized by others, as Finnis and other authors aver. Because obviously such wealth might have been put even to better uses—as it is in fact the usual case—than if it had been redistributed. More importantly, redistributing based on the better utilization of resources gives priority to condition over action, and is therefore contrary to right. The abovementioned situation may simply reflect a state of general calamity, or one of scant general creativity. In evaluating redistribution, then, we must carefully ponder what the group in general has done, or failed to do, in order to reach such a state. There is no formula which can extricate us from this dilemma; there is, however, a sense of justice which any clear mind is capable of discovering in every situation. There are, to be sure, emergencies and extreme circumstances in which a legal hierarchy of needs must be established, but concomitantly there are mechanisms of historical projection of right which insure that everyone eventually gets according to his contribution.

Taxation is not essential to the system, but if the providing functions of the state are taken over by the market—a process which can only be properly implemented in a quasi utopian society—a situation may develop where only a few may benefit from them. Only in a society of optimal productivity, employment and social security can the public sector be strictly limited to the first juridico-economic mode of civil society. On the other hand, subsidizing merely on the basis of need tends to favor mediocre and inefficient enterprises, which hurts the competition and keeps prices artificially high, among other consequences. But so can the free market hinder, and subsidies encourage, the full expression of initial or potential high creativity. I am not proposing here anything like a macro-distributing state, but rather the full and legitimate expression of its subsidizing function, although direct

donations to extra-governmental welfare organisms—for which a tax credit could be granted—may be an alternate way to redistribute wealth.¹

M. Friedman argues that simplifying tax collection (eliminating deductions, for example, except for some basic and necessary ones) would work better. All these laws merely motivate taxpayers to find legal loopholes. Friedman proposes a fixed tax of twenty three and a half percent, which would return to the government treasury as much money as was taxed in the US, at the progressive rates which prevailed at the time he wrote *Capitalism and Freedom*. Undoubtedly, his suggestion deserves a trial run. Although tithing seems to be the rule of nature, there is room for exceptions here. But in order to fall within what is necessary, rather than into what is arbitrary, the numbers do not suffice by themselves, and the amounts taxed must correspond to what is needed for achieving a balance between individuals and the community on the basis of the parameters of right we have repeatedly referred to. Now then, I am not sure that a proportional tax prevents the real or presumed disadvantages of a progressive one. Depending on the percent taxed, a graduated tax may turn out to be even less onerous than a proportional one for those with higher incomes. If everyone is taxed a high percentage of his net income, and this money is redistributed with demagogic purposes in mind, and in indirect ways to those with lower incomes, soon there will be the newly rich and the formerly so. In some societies, a progressive tax may be seen as a minor adaptational redistributive measure. People at the lower end of the scale find they have little left after paying for basic necessities, while at the other end fixed basic expenses take only a small portion of total income. And a small rise, such as the additional three and a half percent mentioned before,² might in some circumstances hurt the production of basic consumer goods and result onerous to people with low incomes.

Hayek may have the answer to arbitrary progression: placing a ceiling on the direct tax rate equal to that which the government takes out of the total national income.* This concept seems to me to be an excellent libertarian weapon, especially for the developed countries, where most government

**The Constitution of Liberty*, Ch. XX.

resources derive from the mid-and lower-income social strata, so even highly differentiated tax rates would make little difference. But in El Salvador, for instance, what the government takes out of the total national income seems to be small, considering that tax payers number only in the tens of thousands in a population of several million, a number which is hardly likely to increase given the meager income of the great majority. I would like to know whether financing the government in such conditions, Hayek's proposal would avoid the need for a big progression or a big differential on direct tax rates. It seems to me that tribute in most cases contains a self-regulatory mechanism for its rate. As long as the state is unable to confiscate the means of production or compete disloyally with private enterprises, it will have no alternative but to set the maximum rate according to what is functional at each economic moment. Otherwise increased risks may discourage investment, thus lowering rather than raising collected revenues.

Right-wing and left-wing

Right-wing and left-wing terminologies of political economics are useful but may be disorienting. We could conceive of right-wing political economics as favoring highly creative minority nuclei in order to encourage a better utilization of the resources. This must not be understood, then, as granting unearned privileges to the abovementioned minorities. It is, rather, a matter of stimulating the creative by providing them with tax shelters and by other measures as long as these prove to be practical measures to improve the general welfare of the group. We could interpret left-wing economics, in the nomic sense, as the opposite, tending to tax creative minorities more heavily (without curbing their rational expansion, as evaluated by what provides them the maximum practical social opportunity), as to achieve a higher rate of redistribution. Unfortunately, left-wing political economics often only aspires to achieving greater equality. Socialism is an example of such a mentality.

Right-wing thought is more akin to the dynamics of the system, although it must avoid hampering the growth of a

strong middle class. Applying graduated taxation might then seem a contradiction, but that actually depends on the tax rates themselves. On the other hand, a graduated tax may be rendered almost ineffectual when legislation allows large enterprises to benefit from extensive legal shelter. Both right-wing and left-wing modalities may be found in a capitalist economy, where policy depends up to a point on the functional needs of society. When the right-wing predominates, enterprises achieve larger profits with little additional initial benefit for the majorities. With the passing of time, however, reinvestment raises not only their standard of living through increased opportunities and development, but also the state revenues. Surely, a wider gap in earnings will also take place at this moment. This is due to the logical exponential appreciation of high creativity in times of general prosperity, and does not occur at the expense of any unit of right.

Right-wing policies are feasible in a developed country. In a poor one where there is a generalized lack of fulfillment, and the wealth-creating function of enterprises is uncertain, resorting to left-wing capitalist policies may be advisable. If this is not done, as we said in note one, the outcomes may well be real negative externalities such as malnutrition, stunted physical and intellectual growth, disease, vice, violence and criminality, all of them highly injurious to global development. In so doing, it is worthwhile remembering that, in general, entrepreneurs are not liable for a grim economic situation, but rather adverse circumstances and diverse social ills, and that left-wing economic policies should be adaptional and temporary lest socially unequal loads end up being imposed on the creative sector of the population. Nomocratic precepts demand that, should that happen, there be restitution, because no right must be satisfied at the expense of another. Since we are not dealing here with a simple loan, however, in cases of major catastrophes such restitution may need to fit the boundaries of practical reality, and may not be able to offer full compensation for such things as the impossibility of reinvestment, low interest rates and currency devaluation. In cases of this sort, we must be willing to share a measure of sacrifice—to be determined in each particular case taking into account the overall human impact of the losses as to keep the social lode

proportionally equal—with the others. This type of situation poses a difficult problem which can only be solved according to higher cultural parameters.

Now then, man tends to possess what he creates and obtains by himself *selfishly*, as when he grabs fruit from a tree or a place to sleep in a cave. If this phenomenon were left isolated, unlimited and considered apart from other natural human aspects, it would lead to conflict. But no natural phenomenon ever occurs in isolation: we would soon die if excretion did not follow ingestion, and that does not make eating harmful. Self-preference is a natural phenomenon, but others of the same type exist alongside, like his tendency to live in society and to conceive and apply laws, which permit man to live in peace. All interact in order to delimit the legal ground wherein he moves. Individual ownership, then, is allowed but organically regulated by the rights of others.

Phenomena like primitive collectivism can be readily understood through the need to fight adverse circumstances, although I am not reducing solidarity to adaptive behavior. An adaptational phenomenon most human societies have had to resort to (and still do) is delegating the application of justice to third persons, when conceptually the ideal is for man to apply justice on his own (in the manner the practice was followed in primitive societies, that is, put into effect by the institution of the family). Since certain adaptational measures are not one hundred percent in accord with the human spirit (as they do not permit its most excellent manifestations) even though they are adequate—and even necessary when they are praxical—in a special historical situation, they must be set aside as soon as the adverse circumstances change; but here rises a considerable obstacle: convention. By the time one of those measures has become obsolete, much rain may have fallen, and society may be reluctant to abandon it since it has often adopted it as a traditional good. A society must be open-minded and without prejudice for it to be able to distinguish between what it must change and what it must keep. Exceptionally, sheer human solidarity can lead to a voluntarily accepted communal ownership; but adaptive left-wing economic measures (which everyone calls socialist) would actually be capitalist in the face of a specific need. It is very difficult

in our time to argue that we need to resort to collectivism. At most, the latter could be temporarily justified for a few areas of production when a market economy is unable to provide acceptable living standards or employment levels. Capitalist economic measures of the left are simply praxical measures needed sometimes to promote harmonious development of the social whole. The socialist tendency goes beyond that, and implies unwarranted state interventionism (in many cases attempting against freedom) in addition to excessive central planning, not just of economic but of social (and sometimes even private) life. We can accept that the ideal of every economic system is to provide the greatest wealth to the largest possible number of people at a given economic moment. But if that is not attempted within a legitimate framework of right, forced labor could be considered socially useful, and it could be implemented by the state as long as it fulfilled that ideal.

Large-scale production may proceed smoothly and prices may come down in a left-wing capitalist economic environment, but not in a climate of political instability, especially when there is talk of socialization. While the laborer worries only about the day, the industrialist is planning for the century. El Salvador could not be the exception: during Duarte's administration many chose to take their money abroad rather than invest it in enterprises which could be nationalized tomorrow. In order to correct injustice we do not need to satisfy a right at the expense of another. What is needed is a higher level of income redistribution—although not even this, to tell the truth, but rather a more adequate delimitation of the tax-paying sector—a realistic minimum wage system, and an adjustment period of austerity that provide immediate alleviation of basic needs for the poor and foster business growth at the same time. Thus, little by little, we may achieve the establishment of a full capitalist system. The reading of the articles by Rev. Robert A. Sirico, President of the Acton Institute, is of great help here: he has one of the most balanced insights in this matter. Basically, capitalism practices economic policies of the left in a contributory frame of mind, while socialism does so with a statist and anti-individualist mentality. And this may be the difference between freedom and slavery.

Usurping reward

Most of what needs to be said about the socialist ideology has been covered in previous sections, so here we will limit ourselves to analyzing some of the particulars. Socialism, its adherents contend, is a philosophy characterized by a central planning aimed to achieve the humanization of the economic system. We have to distinguish between two great types of socialism. The first one is installed when communists come into power, the so-called and the actual first stage of communism. The second one is socialism in a democracy, not entirely anti-libertarian in practice, probably because of obstacles placed by the culture. The confusion between these two types is usually due to the statist mentality which both share. Socialists and communists used to be historical allies, but they have since grown apart. And while today many socialists again identify with the communists, especially in the Third World, this is a historical outcome which is specific to every situation. Socialism in a democracy is neither installed by means of a revolution nor based on a dictatorship of the proletariat, and, if it is not successful, can be turned out of power at the polls. Thus, what socialists propose is a sort of statism by majority choice. Its aim, however, at least that of many socialists, is not the total and definitive abrogation of rights and freedoms, but to grant the public sector a larger sphere of action than it should have. This leads, among other things, to the emergence of state monopolies which, unlike the private ones, are not limited by political power but are instead bolstered by it.

Let us emphasize here only the fact that property is not merely a functional value or a subjective right, as Leon Duguit would say. It is an objective reality, much more related to ethics than to function, and to nature than to concept. The social duty par excellence of private property is to project towards the common good, which it does best by fulfilling the unit of right to which it belongs, and the social right par excellence over property is to conserve it for the individuals. Socialism does not claim to deny the right to property, but its orthopraxis, or its idea of the universal purpose of goods, leads to a usurpation of the second rights to it. In such a way, socialists alienate the common good from individuals, and they

place it in *the community*, a super-structure separate from the individuals which compose it. When we consider all individuals organically we do not make that mistake. Rather than being obligated to an abstract entity or to a group in itself, men are obligated to every one of their peers. Socialists believe that in affirming exclusively the group they do so for every one of its parts. As unit of right, however, the group is no more than one of such units present in a society. By taking the right of the group as universal, and by believing that right manifests in the parts automatically instead of qualifiedly, they commit all sorts of usurpation while proclaiming equality.

To avoid a too long elaboration, instead of quoting socialist scholars, I chose for this chapter to discuss just their classical tenets and humanistic concerns, except when it comes to Ghandi. Because his ideas are the paradigm of sublimized socialist dispositions, and still fall in the same contradictions. For example, he considers socialism to be synonymous with equality, where "no one is above anyone else." Marxists would endeavor to solve the "opposition between citizen's rights and the exigencies of class structured system."³ Although the bases and motivations of both positions are worlds apart, the results are unfortunately similar. Both lose sight of the fact that a class system is an expression of citizens' rights. If we were to follow the policy of Gandhi we would have to give everything out immediately, and whenever someone began to make progress and stand out from others we would have to stop and give everything out again until everyone was equal once more. Can this be called justice? Because society means not only consumers, but producers as well. Mahatma spoke of equalizing wages, and demanded a transfer of wealth (and not as a gesture of charity, but as an exigency of human justice) from those countries which had specifically worked to create and accumulate material goods to those which had not. What he proposes is no more and no less than a transnational welfare state.⁴

Everyone, he says, must work for the benefit of society, not for themselves. But if everyone works for everyone else, something of what they make belongs to me and something of what I make belongs to them. The end result is that I come to own something which others give me, and others come to own something which I give them. At the last turn of this wheel of

distribution—which we must understand not within the context of joint production and exchange practices, but in the sense of working to satisfy the needs of others and not our own—the outcome is the same as if we had all worked for ourselves. The advantage, in the latter case, is that we would all get what we had created and earned. This is the real meaning of “Thou shalt earn thy bread with the sweat of thy brow.”

Socialists also share with Marxists the notion that individual preferences are incompatible with rational social choice. As we have seen, the individual is commonly unable to overcome in a rational manner the social dialectical situations which confront him with others in daily life; but it does not follow from this that a rational social choice must deny individual rights. Gandhi justified equality of distribution by saying that it meant that each person should have no more than he needed to meet his material needs. By doing this, he subjects rational choice to certain humanistic concerns which fall outside the legal spheres, and gives precedence to condition over action, thus violating the second principle of nomocratic right and a basic rule of priority. And unless we equalize everyone at a low level, his definition is unacceptable because in itself it presupposes inequality. If we consider what some enterprises need in order to produce as they should, there will always be millionaires, and if everyone has his basic needs met, who should receive the excess wealth that has been produced? Were it not for those who produce more than the average there would not be anything to redistribute. Some people work almost exclusively for the achievement of material gains, while others predominantly seek spiritual goals. The former are condemned to live without faith, the latter constitute a special group which does not fear poverty. But the end of the ordinary man must be the full development of his capacities in every field.

These brief illustrations of the ideas of Gandhi show that Mahatma was that rare kind of socialist, the total socialist. Perhaps that is the explanation to the failure of radical modern socialist proposals, such as Guild Socialism or Syndicalism, which swings from demanding the abolition of the wage system—which would be achieved through a *decommodification* of human labor-power and social life—to

a workers' self-government—which entails taking over the industries by the democratic means.⁵ Such self-government, however, is only a tyranny of directive boards, a *selective multi-aparticularization* according to each one's line of work. The dismissal of the second principle of democratic right is obvious. And since not even the new middle class would accept absolute equality, socialists adopt the new terminology of greater equality which—besides taking away too much from the productive sector, and hindering brotherhood by competing with genuine charitable actions—leaves the crucial problem of statism unresolved. The only welfare-state measures I endorse relate to the care for abandoned children, and to pension or insurance systems for the unemployed or for the old (for their past contribution), when the prevailing salary levels do not allow saving for the future. Actually, most socialists adopt various socio-economic positions. A socialist in Western Europe is very different from one in the Third World. Most of the former actually possess a left-wing capitalist mentality, while the latter accept autonomy for some institutions such as the church and the university but are reluctant to recognize it for the institution of private enterprise. They argue that autonomy in the latter case leads to the emergence of monopolies, a pseudo-problem as we have seen.

Some accuse capitalists of being governed by the whim and whimsy of irresponsible individuals. But the occasions when this occurs are more than compensated by the individual creativity which is curbed under socialism. When there are alternatives, hoarding, for example, often results in placing the accumulated resources in the best hands at the right time, although there may be no use for them at a given moment. Still, when so required for the attainment of the common good, the state has the prerogative either of acquiring what has been hoarded—making fair payment for the goods acquired—or of taxing the product or the unused resource.

Some socialists claim to oppose the existence of economic classes only, and they ask themselves why must differences in merit be objectified in economic terms? Perhaps the best answer is another question, why not? But we must be wary of the connotations of words. To some, class brings to mind a divi-

sion offensive to human dignity, and a pejorative meaning in referring to inferior classes. In reality, the term refers to the natural organization of a society on the basis of the social acceptability of work. One outcome of a global central planning is the super-institutionalization of social mobility. That is why, as happens in capitalist societies, such organization must be spontaneous and arise from the initiative of the members of the community, much like a club. As soon as they come to power, many socialists start to exemplify the differences they claim to oppose. They recognize the merits of those who constitute *the new society*, but not the merits of those to whom they owe their motivation, envy.

The overall goal of bona fide socialists is to provide the benefits of a social safety net (most certainly a constitutional goal of society) for every member of the community. Such a goal is not alien to capitalists, except that they advocate offering only a minimum social opportunity. As we have said, this may include the provision of material subsidies, provided that an organic societal need justifies it, and the resources provided have undergone a praxical qualification of right. In general, the best way to provide such a safety net is by guaranteeing that no one is deprived of his lawful opportunity under a free exchange of labor. However, in order to avoid the decadence of the race—as in the case of widespread parental irresponsibility—the universal provision of certain services such as health care and education becomes a nomocratic praxical demand. Obviously, the benefits of the welfare state are attained by assigning resources to those who produce less than is needed to cover the cost of their own services, so this must avoid drawing resources away from those who for their creative work may end up with nothing beyond their own universal portion. The state, then, distributes illegitimately appropriated resources, and this ability to usurpate leads to its undue acquisition of power. The most crucial sphere of a genuine social benefit is of ethical character. We have already demonstrated the irrationality of a state of right based on need. It follows that, eventually, passive recipients must contribute also their particular labor toward the attainment of the common good.

Pseudo-humanitarian measures

As long as the resources utilized do not come from unbalanced budgets or onerous taxation, providing certain services under state auspices can be viewed as inferior nomocratic praxes. But obstructing private initiative from taking over is bound to lead to a diminished interest in improving the quality of life. With occasional exceptions the state is not the best administrator because—in the absence of a price system determined freely in the market by competition—it lacks the optimal sensory mechanism to guide it in the application of resources. Patently, bestowing selected private hands the privileges often granted to the economic undertakings by the state, is only a special structure of aparcerization.

Centralization of economic planning is the socialist measure par excellence. Some are content with less radical planning. Organizing industry at the national level, means for them avoiding extremes of inequality. Probably including some form of control of the monetary and banking systems through some restraint like a gold standard, all that a society needs to plan centrally are fiscal and redistributive policies, within the parameters sufficiently discussed. Some organizational measures, such as urban planning, licensing requirements and the supervision of the compliance with contracts, are also acceptable if they do not go beyond the point where the generation of structural unfulfillments is prevented. Free interaction does not obligatorily need any *conscious social control* in order to work, because even if the parts pursue different or even opposite interests they must agree on a common territory of understanding and functionality. One form of such control is to hamper the right of enterprises to free association with the excuse of guaranteeing equal opportunities. But opportunities other than juridical and minimum social are actually privileges inconsistent with the legitimate ways of subsidiariness. The latter may benefit some social sectors selectively but in organic fashion, which finally promotes the common good. Nationalizing the means of production strengthens the state the most. The proposed reason for granting individuals control but not ownership is that property, being an institution, is not to be owned. This is a clear fault of

delimitation in the extension of the term, failing to discern between the juridical framework and organizations around property, and this as an object of right. Besides, in an institutional corps no one is banned from enjoying the fruits, benefits or rewards derived from institutional labor. Not all of them are supposed to become public goods, since they may accrue to individual labor. And, among other things, the practical issues: administrators are often poorly chosen, and abuses, favoritism and bad planning are rampant. Socialism thus makes optimal creativity impossible for individuals, and hinders large-scale industrial production the most: since their enterprises must operate planning far in advance, the risk of suffering statist measures increases.

The classical model of Third World socialist measures is the nationalization of the land. Perhaps nothing is more absurd than attempting to determine the good or bad distribution of the land by looking at figures on a piece of paper. The number of people in power is never great, and that never leads us to conclude that power is unfairly distributed. Figures are not the parameters to assess the merit of some and the unworthiness of others. Assuming dispossession of the land—based on the statistical fact that there are few owners today where yesterday there were many—is only appropriate when the land was lost through usurpation or forced trade. Great masses in the United States could otherwise be considered to have been dispossessed of their land, since very few are engaged in working it. He who relinquished his land by his own will and free from coercion has not been dispossessed. The right to own land is only a particular aspect of the right to property, and implies the freedom to compete for its ownership, keep it and enjoy its use. As long as just distribution of income prevails, nobody can claim to be deprived of the means for securing his sustenance or of opportunities simply because he does not own land. Where right is concerned, land is comparable to any other means of production, and when the constitutive goals of society have been fulfilled, not owing such means can be deleterious only through the play of circumstances or natural calamities. There is no rational basis for arguing that owning land is an indispensable prerequisite for attaining the common good, first, because the fact of being

born in the countryside does not in itself provide a source of right; second, because owning arable land is not a necessary condition for self-fulfillment; and third, because individual welfare is best attained through free trade, which includes the land. And above all, because when lawful, this is, by definition, extensible to the whole.

Being born or living in the country does not grant the right to own it, just as being born or living in the city does not grant ownership of its streets, buildings, or whatever good located there. Natural selection seeks and finds the most suitable owners of the land. Guaranteeing justice and the purity of the selection process is all that is necessary; the number of owners is determined by itself. In the animal kingdom, territorial limits are actually defined by the physical extension animals are able to defend and by the demands of their biological needs. In man, needs are extrapolated to the emergent level. It is impossible to infer from the principles of nomocratic right a rule that requires limiting property over the land based on extent of ownership, only that the benefits derived from its private holding also accrue to the common good. Taxation does not restrict the magnitude either, only imposes a rate of redistribution on what such property yields. Adequate distribution of the land does not have to mean increasing the number of owners, but it can stimulate smaller landholdings as a means of discovering more efficient landowners. The psychological need of the peasants for land ownership, especially strong in over populated eminently agricultural countries, must not be neglected, but without curbing free competition. Because even though we all have psychological needs of this kind, we cannot always fulfill them, just as there will never be enough power for those who only desire it but do not deserve it. The system offers numerous alternatives available to those who are left without land. In order to make resources available to the many so that talent can leap from potentiality to full manifestation—a goal which socialists profess to espouse—there is nothing better than the opportunities created by the market process. A few creative landowners will produce much more wealth for the social whole than thousands of small uncreative proprietors. Which of both situations is more likely to reflect the attainment of the common good then?

Private ownership of the land, says Bertrand Russell, finds justification only in the sword, and he supports it merely in order to keep thieves at bay. His inconsistency is plain to see: if he justifies action against thieves, he justifies right. Russell forgets that land, although not itself a product of human action, has been the recipient of plenty of sweat and toil, and too many historic and meritorious deeds bear upon it so as to allow free or equal access to it.⁶ Now then, when a group settles a piece of territory, it stakes its claim as a group because it is as such that members defend it from strangers. This characterizes the first type of right over the land, the collective right which defines a territorial state. This makes the land belong to everyone in the sense that no one can take a portion and split it from the group in order to form a separate state, and also in the sense that the activities carried out on the land must conform to the fundamental standard of right of the group. The second type of right over the land arises when parcels fall under the sphere of exclusive use and enjoyment of families as a function of their natural cellularity. A cave may be the property of the entire group; the spot where each one sleeps is individual property. The most common explanation for large landholdings seems to be precisely the trading of these ancestral appropriations and functional allotments, whose legitimacy is transferred to their trading and to the new owners and forms of ownership. Individual right to property within a group presents many variations which could be considered as third rights, such as the right of tenant farmers in the feudal system. It can be shown that, strictly, no one is deprived of land, at least not of third rights (or of a universal one, if we wish) to it. In fact, land is utilized for free to a minimal extent by every inhabitant of the planet without exception: for movement, rest, and other activities.

At the beginning, since almost everyone worked in agriculture or herding and the concept of commerce of the land neither existed nor was needed, everyone tended to own land or to use it for free. With the division of labor, that was no longer practical, and from then on, in the midst of a tangle of situations (legitimate and illegitimate) we have come to the circumstance which confronts us, where some own a great deal of land and others none at all. In ancient times, working the

land was viewed from a rather mystical perspective, surely a vestige of early telluric religions. And tilling was done for the purpose of immediate sustenance, resulting in a lack of accumulated resources. Commerce of the land favored the development of a new mentality; collective ownership of the land, although not alien by itself to that mentality, is far less motivational. Socialist measures tend to be more harmful the more underdevelopment there is, among other things because large landholdings are more easily managed in difficult times. On the other hand, if land is granted to the beneficiaries of a redistribution, free commerce will cause the land to become concentrated in a few capable hands and many will again have to work on it for a salary. The way to prevent that outcome is prohibiting land from being sold. This is the rule of thumb for the typical agrarian reforms in the Third World, and it leads to enormous contradictions: prohibiting the sale of the land keeps it away from those who want to work it, and forces it to remain in the hands of those who cannot make the best use of it, and who could possibly advance in other areas if only they could sell it. Or, otherwise, the land is sold or given to a commune which assigns it to others who do want it but who are not the ideal owners, economically speaking.

State-run cooperatives have the advantage that it is easier to provide them with technical and financial assistance. But the disadvantage is that members are tied to them and cannot make crucial decisions, and end up in deep debt with the state. Solutions won't come by until integral development is achieved. There is no use in handing over a small parcel of land to each person if adequate assistance and good soil conditions are absent. I believe that the problem could be ameliorated in part by legislating third rights over the land, such as the right of tenant farmers, or by creating a reserve of land for common use. Well planned, that could alleviate the campesinos' need of land without disrupting proper functioning. For instance, as long as a parcel were not included in the organized production of a private landholding—especially if the group or some sector needed it for the cultivation of some agricultural product essential to survival—a holder of third rights would be entitled to farm the idle land unimpeded in exchange for a reasonable payment of rent, or he could be

granted special credits for the cultivation of the abovementioned basic products. This a case neither of corporationism nor of mixed or co-managed enterprises, such as the socialists propose, because it does not deprive those who have the second rights over the land of overall control of the same—the right to sell it in its totality, for instance—and because no unqualified and permanent tenure is necessarily implied either for holders of third rights. Besides, it should be understood, these measures must be temporary, and applied only in cases of compelling necessity, and when for some special reason free competition over the land does not result in reasonable utilization of the latter. Expropriation on account of this, on the other hand, is almost equivalent to seizing any goods or the fruit of labor force which are not utilized to their maximum capacity. Socialists cling to the first right to property as representative of the rights of all as individuals. Thus denying the relevant dialectics, they fall into usurpation. The jurisdiction of the first right applies only to decisions regarding the abovementioned common ends for the property.

I have been unable to get a copy of *Treatise of Pure Economics*, by Professor M. Allais, winner of the 1988 Nobel Prize in Economics. But at the risk of prejudging, the abbreviated presentation in the newspaper article which contained this news left me little doubt that the principal thesis of the work is a defense of a statist measure, in this case the balance of prices. Such a measure is considered effective in preserving social welfare because it does not allow one agent to gain more profit without lowering the profit of another. This denies man the right to assert or to change his appreciations on the value of goods, which is the main cause for swings in profit levels. Balancing prices in freedom is the function of the market. Centrally enforced, it would favor mediocre producers and check the expansion of excellent ones by preventing their products from reaching attractive prices in the marketplace, resulting in a lowering in the quality of such products. I suppose that balancing prices must entail stabilizing the price differential of products with respect to each other. In turn, that must mean that if the demand for an outstanding product rose, its price could not, unless the others rose at the same pace. The conclusion seems to be that the distribution of a

product which is more desirable than others in its field would not take the route of free competition, but the route of luck and favoritism instead.

Socialists see as indicative of an ideal society that the price of products be equivalent to the cost of producing them, the so-called *social cost*. Unfortunately, the definition of this is very poor as it means the sum of the costs of production materials plus salaries paid, not taking into account in such costs much of what some give of themselves in the productive process—to wit, risks, creativity and care—which are the paradigmatic contributions of the capitalist. This omission is due to the fact that the owner of an enterprise is not expressly accorded a salary. But then his labor must be recognized in the market by the acceptability of his product as reflected by what consumers are willing to pay for it. That is what causes the alleged differential between the price of a product and its cost of production. Although in everyday market's dynamics the role of supply and demand seems to originate in a sort of macro-economic impersonal realm, we can always trace its roots to the (relative) economic sacrifice implied in the surrender of values that takes place at every instance of trading. In the last ideological analysis, the splits supply-demand and buyer-seller are synthesized by the concept *provider*, with all its connotations of right. Thus, absent special considerations of priority and subsidiariness, the play of supply and demand is the only mechanism to decide in juridical equality who gets a good or who gets it first. Other factors remaining equal, it seems most rational that the highest bidder get the product, since the sources of right are the same in every buyer and because the will of the seller, who will naturally take the best offer, is to be respected. Supply and demand represent economic correlates of polar wills over the products manifested through their effective socio-mercantile powers, and brought to a synthesis by contract, which has in turn an economic correlate in price. But since in socialism trading is a permission granted for practical reasons and not a right, it can be severely restricted or rendered meaningless by a pre-established standard of merit. Social cost is primarily an ideological notion. The socialist version excludes important spheres of creative labor from free trade, that is, from recognition. Thus, given that profit ends up

practically equated with countable-investment recuperation, orthopraxis will demand that all entrepreneurial shares be determined institutionally. This is the real reason, not the possibility of abuses, for nationalizing the means of production!

Other socialist measures such as nationalizing the banks, for example, simply politicize credit, as also happened in El Salvador. Under capitalism, when the demand for credit is not satisfied by the existing banks new ones are founded to meet it, allowing market mechanisms to make the necessary adjustments. Credit policies are the province of each individual bank. No bank should be forced to make loans it does not wish to make, only that it pay interest on what is deposited in its vaults. A banker is most useful to society not when he grants credit indiscriminately, but when he places the resources in the best hands. But under some special circumstances the state may open lines of credit to deserving sectors of the population, or it may create institutions to complement the work of private banks. Price (and other) controls usually bring about unemployment, decreased productivity and other imbalances, specially when subsidies and further controls become necessary to patch up the distortion of the economy. Price controls can only be justified in emergencies, or where the seller enjoys an impossible-to-balance coercive power over the buyers, that is, when his demands—usually due to lack of competition—become by themselves the cause of artificial unfulfillments, much the way we saw it at the beginning of chapter six.

Distribution in accordance to a set table of the value of labor is the heart of socialist ideology, but there is not in this context a global social need to measure for us what is valuable, but rather multiple and differing individual needs. In a free society, products are given not to society as a whole but to its economic units. This is precisely why the motto “Equal pay for equal work” is inconsistent with the first principle of nomocratic right. That violates the freedom of such units to demand what they deem a fair price for their labor or to expend their resources in a way they find wise and fulfilling, and thus aparticularizes them as subjects of right. Actually, the mentioned scale is only rarely used by socialists as the sole norm for distributing wealth, since what they really end up implementing is a mixed economy where such factors as supply and

demand must be taken into account in the mechanics of incorporating products into an exchange system. On the other hand, trying to comply with the mentioned table of value, subsidies must be called for.

Protectionist measures do not in general arise with a socialist mentality, but protecting inefficient producers means others will have to take on the expense: consumers, taxpayers and other producers. In some cases, however—such as when production costs are higher locally because of prevailing tax rates or salary levels, or because of certain unfavorable circumstances—allowing foreign imports free access to the local market may ruin local industry. It is not at all clear that lower prices—which may not even be lasting—would compensate for such a thing and for the subsequent loss of jobs. And if it proves impossible to revive local industry, we may find ourselves completely at the mercy of foreign interests or of the circumstances that may befall foreign producers—high export taxes or an inflationary process, for example—which may cancel the previous benefit of lower prices. Conversely, it may occur that excessive demands on the part of a particular native interest, usually a monopoly, may make local products less competitive abroad. A protectionist tariff here only impedes foreign competition from duly pushing the monopoly aside. But it is also conceivable that foreign providers might not be able or willing to expand their sphere of action, or were part of a *de facto* international trust through deals made under the table with their local counterparts. Global economies, although they may help, do not prevent by themselves unfair-advantage maneuvers. Finally, the establishment of foreign enterprises which displace the local ones also poses the question of protection. In addition to the previous thoughts, here we must also consider the possible expansion and betterment of the working force.

Certain quality controls—usually unnecessary when competition is strong—and environment-preserving measures are not exclusive of socialism either. But worldwide production planning or price controls of foodstuff or raw materials certainly is, and can only generate worldwide conflict when a commercial monopoly is imposed which may prove burdensome for many.

Occasionally, as in economic depressions, the state can establish enterprises to create employment, as long as these are later privatized—but not privileged—and efficient enough to expand the economy. Cramming them with workers, which modern economics would oppose based on the law of diminishing marginal returns—stating that there comes a moment when any extra input of labor (or of capital) fails to increase production as before—can only result in underemployment. This is the right to work which socialists offer.

Tyranny as praxis

The most undesirable consequence of socialism lies in the rise of a state which monopolizes all power. This tends to be so because even though some socialist schemes are intended to be put into practice by the people freely organized, in the absence of unanimity such a goal cannot be attained except through the agency of regulation *from above*. And given the main goal of any such schemes, aparcularization, the central power will tend to do away at least with crucial libertarian spheres of important institutions, which otherwise would serve as effective checking mechanisms against abuses of power. Of course, institutional autonomy must always abide by the established framework of right; otherwise what we have is a form of anarchy.

We must distinguish between political and economic power. The latter has a protective and libertarian function, and on the other hand it is not itself a source of abuse since it is separate from political power and limited by the power of others as a result of the same situation. We will now discuss potential dangers which are not fully manifested at present because the socialist countries live a sort of half-way capitalism or social market economy. Besides, socialism has tended to appear in relatively prosperous countries and is moderated by the founding libertarian sentiment and the political influence of Western democracies.

Once the individual is melded within the socialist group, he fails to develop fully as a person. Unbridled feelings of hostility against other groups often develop, justified by the prejudice that a collective vice is morally acceptable. Transnational

socialist cosmivision is a common phenomenon only when it comes to imposing its criteria. Capitalism, on the contrary, must recognize self-determination and the joint effort of the groups, for its cosmivision is based on the particularization of right at a universal level. Although it is inconceivable at present to do away with borders, that is the long-term trend of capitalism: crude nationalist and class sentiments are incompatible with the core of all individualist philosophy. The trend in socialism is towards totalitarianism, since central planning may end up invading other orders of life in addition to the properly economic ones. This is often done by progressively taking away from extragovernmental institutions their role of molding social conscience. Of course, there are centrally directed social schemes unrelated, at least in principle, to any socialist or statist framework, as the caste system of Hinduism. In such cases, the state is an instrument of higher designs, not the planner. More than five hundred thousand people marched and demonstrated against the attempt of the French government to eliminate private education. "La liberté ne se discute pas," read the placards. So the danger can be averted if the people maintain their libertarian vocation, demanding a limit to the legislative powers of the state.

Many believe, says Hayek, that transferring individual property to the state only transfers our power to it, as if we still had it. Nothing is less true. In reality, a new power has been created which is absent in a competitive society; and once it is created we are not far from slavery. Control of the means of production in a system of free competition is divided among so many that no one can have any power over us. In three words, the motto, *freedom through property*, tells us that coercion is better channeled through statist institutions than through a free market. In practice, the best safeguard against slavery is without a doubt the respect for the right to property.⁷ Reciprocal coercion may result from unrestricted expressions of the will, but this is alien to the capitalist notion of economic autonomy. Hayek is correct in asserting that it is desirable for the means of production to be in the hands of many, since that prevents anyone from controlling them and being able to practice coercion. He also illustrates rather well how, since that is neglected, socialism may lead to totalitarianism

through organized pressure groups.⁸ It is worth commenting, however, that extreme centralization of the means of production may well occur as a consequence of acquisitive, productive and administrative excellence. That in itself is consistent with the principles of nomocratic right, as we have seen in the case of monopolies. It is only when such means are in the hands of the state that they become integrated with the political power and thus part of a monopoly impossible to regulate.

Coercion includes anti-libertarian dependence. We are objects of coercion, according to Hayek's famous definition, when we are forced to act not for our own benefit but for that of others because our alternatives have been so manipulated that we have no choice but to select an evil. But there is no coercion when we are obligated to act in a certain manner in order to get something we want, as long as no one with the exception of nature has placed us in that situation—when we have to work in order to secure the means for our subsistence, for example. Hayek has proved how not even the biggest economic powers—within their own legitimate sphere of action, of course, taking into account what we have said about unfair-advantage trade—can exert coercion over others. Hayek has also delineated the legitimate applications of coercive actions by the state, one of which is precisely the prevention of coercion by some individuals over others.

Socialist institutions constitute a potentially serious threat to freedom precisely because the encroachments they make upon the latter are often progressive, so only a few realize how deprived they are of the right to pursue a rational plan of life. One problem is the lack of buying and selling of labor in a free and competitive market. All alternatives are blocked as a result, and the worker—whether he works in a nationalized manufacturing plant, or as member of a campesino cooperative—has no choice but to accept any wage and other policies imposed by state enterprises. What is more, the benefits accrued from such labor are not expected to redound in economic compensation for losing his shares when leaving the job. This is the outcome of conceiving the right of the group subsuming that of individuals. In establishing a common standard of self-fulfillment which neglects the existential uniqueness of each referent of moral action and of each subject of

right, a basic rule of practical reasonableness and the first principle of nomocratic right are both violated.

Let us consider now an example of how a measure seemingly in support of social conciliation, such as mandating by law the sale to workers of a portion of the shares of enterprises—flourishing ones, naturally—easily becomes anti-libertarian praxis. Assigning shares (or profit percentages) from the enterprise to the workers does not redistribute where it should. It does not necessarily give to those who produce or have a legitimate need, it does not place the money in the best hands, and it fosters discontent in those enterprises which are less able to distribute. Only the enterprise can decide if it benefits from a measure of this type as a functional policy. Such assignation forms groups of vested interests susceptible of being used against freedom. The same thing happens when, through laws regulatory of private life, free interaction is impeded and privileged groups are created which support the undue acquisition of power by the state.

Socialists, however, have invented a series of concepts tending to make of the state a judge with absolute powers to determine which property may be confiscated. To that effect, they resort to the slanted use of such terms as national wealth, social function of property, social interest, public value, and others. The worst thing is that they have succeeded in introducing that terminology to the political constitutions of modern democratic states in such a way that they may appropriate what they wish when they attain power, arbitrarily declaring confiscations and nationalizations for the relief of social needs. They define property as an abstract value or right whose content may vary for reasons of public need and social interest. But who must decide, and on the basis of what parameters, when and to what extent a public need demands the taking of private property? We cannot allow government to do that at whim, because judgment then tends heavily to depend on vested interests and not on the objective requirements of the situation. And who is to determine what constitutes a social interest? It should be obvious that the greatest public value and the best interest and social function of property is its protective role against coercion, which disappears when property is estranged from individuals. If we conceive of

individual property in absolute terms, within the context of nomocratic justice, that is, we hardly need to ask the preceding questions. Socialists are propotionalists, for they want to favor the greatest number of people possible. But proportionalism can be the parameter for allotments only in regard to the common patrimony, following our third rule of nomocratic priority.

He who is really knowing cannot be a socialist. The sensible man must embrace capitalism, the only political philosophy capable of fulfilling each and every social being. It can only fail (economically) when it is distorted, or prove temporarily unworkable in the face of extremely adverse circumstances. All its functional mechanisms (enterprise, the free market, and others) constitute a praxis entirely congruent with the exigencies of practical reason. Perhaps the socialist is no more than a dictator at bottom, and sometimes a neurotic who wishes to see his dreams of domination realized, as von Mises said in *The Omnipotent Government*. In truth, as the author points out, there is more than one socialism.⁹ Although there must be a basic structure in capitalism, just like there is one in every non-anarchical way of life, there is a free determination of the everyday contents of the social forms of the conscience. On the contrary, by assigning an arbitrary goal to history, socialism tends to produce conflicts. Socialists have reached the extreme of postulating an insulting and progress-halting standardization of needs, which does not exist even in the animal kingdom. Given its predominantly subjective character, need is for the most part incommensurable, thus being unsuitable as a parameter for the application of the principles of nomocratic right. On the contrary, capitalist society tends to be pluralistic. But this aspect needs clarification. For example, and despite such enlightened opinions as that of M. Novak—whose excellent book *The Spirit of Democratic Capitalism* unfortunately I received too late for further comment—pluralism does not prevent tyranny: socialism can be installed through voting. Nor independence of the economic, political and moral-cultural realms is a prerequisite for enjoying freedom: capitalism is holistic in the principles of right of its moral-cultural realm, their political guaranteeing by the state, and their immediate economic corollaries. Pluralism and independence at the substantive levels decharacterize any system.

Socialism tends to tyranny fundamentally because its principles of right are immoral.

Finally, I must again warn against being impressed by words. Socialism suggests collaboration; capitalism seems to connote the libertine use of money. For that reason, therefore, it would be better to use the term *nomocracy* for capitalist doctrine. This term expresses better the manifestation of integral communitarian spirit and praxis in the various aspects of social life, especially considering the clichés capitalists themselves use to define their goals. Individualist ideologies are basically correct, but their economic practices are not free from the possibility of coercive utilization. This tends to be avoided when an effective competition and a balanced socio-mercantile power exist, what I have called *working capitalism* or *market economy*. But ideologically, the libertarian structure appears only when the individuals are considered in their full socio-legal organicity.

One of the objects of this chapter has been to show that certain economic policies are not exclusively identified with either capitalism or socialism, and that it is rather the manner in which those measures are implemented which transforms them into tools for either usurpation (or coercion) or the administration of justice. It may be thought—on the basis of a lack of figures supporting our postulates—that we rely upon subjective foundational criteria. But it is precisely a subjective act to express the criteria concerning legitimacy on impressions about numerical terms. And it is illogical to define a moral reality as the state of right on the basis of a quantitative standard of social relationships. Numerical propositions on budgets, income tax rates, and so on are, of course, indispensable in daily life, but their validity (*orthopraxis*) can be assured only when a doctrinal criterion is fulfilled in each proposition. Thus, our main concern is to establish, or rather reaffirm, the (moral) doctrinal bases of natural capitalism. They are the ones which allow us to decide whether an equation balanced according to some economic criterion—as it would be the case of many greater equality proposals—is unbalanced in what concerns right, or whether an apparent imbalance—as it may well be the case of an unequal distribution of the land—actually signifies justice.

Those who support either the group or the individual to the exclusion of the other *resolve* issues easily: they need only deny one pole of right, which actually, in one way or another, ends up denying individual rights. Solutions which satisfy each and every one in generic and particular terms cannot be that simple. Recognizing the bipolar-affirmative nature of the political dynamics of society and validating its three principles or right, however, we can reject both socialism and (mercantilist) liberal capitalism, and identify the heart of fundamentalist capitalism, which would be a part of a rational normative universal suprasystem. Such a suprasystem (or nomocracy) dictates how freedom must be understood and practiced, and within the context of the achievement of the common good—in the praxical way demanded by each epoch and culture—it differentiates as well as integrates microcosmic and macrocosmic social labors in a synthesis ultimately based on justice. Thus, it fosters the most complete expression of the rights of each and every one, and molds itself in the essence of every ethical and natural system of life.

Notes

¹There are—without the slightest doubt—individuals and associations of inestimable value to the cause of freedom in the ranks of liberal capitalism. But there are also those who lean heavily toward hypostatizing practical rules of conduct, free trade and contract practices for the most part. On this basis, we must recognize that the socialist critique of liberal capitalism has its *raison d'être*. For those lacking in real effective socio-mercantile power, their free choice is only a theoretical possibility. Given all this, no compelling ideological reason is given to exclude the state as the agent of redistribution, as long as the utilized resources can be considered legitimate social patrimony, and a state monopoly is not legally enforced. The contrary argument is upheld on the basis of practical considerations (the abuse and poor planning of state investments, subsidies and credits in this case), and assert that private enterprise is more capable of detecting where it is better to utilize resources so that, over the long term, if these remain in its hands, more wealth will be produced which, reinvested, will best meet the needs of the group.

These are reasonable assertions. Even though private enterprise does not have a monopoly on good management, the often unlimited and unqualified access to resources that state enterprises enjoy is prone to inefficiency. On a related matter, politicizing credit (common under central financing) and reserving it for a clique (as private enterprise is wont to do) are two sides of the same coin. There is, of course, no right to credit, and the legal owner or depository of resources has the right to place them as fit. But since thus many potentially good producers may be overlooked, the state may allocate

credit resources to those who truly deserve them, and are thus in a position to contribute to the advancement of society. But even if private financing put resources in the best hands, private investment may remain localized for too long because it seeks out the best markets first. It would not be unusual if private enterprise were not interested in the meager returns from investing in basic housing, health or education for laborers in underdeveloped countries, for example, given the poor economic circumstances of the projected beneficiaries. Thus, by the time business enterprises find such markets attractive and can effectively project themselves on a large scale, perhaps through offering insurance plans, labor may be in bad shape—an institutional delimitation of wages does not offer solution by itself—only able, in the short term, to contribute to the productive process with scant creativity, and social malaise may have appeared, resulting in the capital flight which is to be expected. This flight is further intensified by the concentration of wealth in the hands of certain individuals who thereby gain access to attractive international markets. It is much too easy, under these circumstances, for the general population to become impoverished.

Extreme monetarists even attempt to justify the above by arguing that capital flight still benefits the recipient of the resources, and that in the long term all mankind will benefit. I object to such reasoning: it would be unethical to produce disproportionate wealth for some groups—a metropolis would be a likely case—by causing increased peripheral poverty, for this violates the third principle of nomocratic right, especially when the immediate social cost is offensive to human dignity. Besides, the projected benefits for all mankind cannot be taken for granted in real life, and even if they could, they would probably come too late to matter in situations like the above. The argument could not be supported even if everyone were free to migrate to wherever resources were plentiful, partly for practical reasons—among them the possibility that immigrants may be discriminated against—and partly because (as we will see at the end of the book) it is contrary to natural law. The mercantilist argument supposes that the initial pattern of distribution is irrelevant as long as there is an increased productivity, for in this case reinvestments and increased public wealth, derived in part from taxation, will benefit everyone. But that depends, as we have said, on the type of such reinvestments, and above all, if they do not continue practices of exploitation. Besides, a public treasure capable to guarantee a minimum social opportunity, derives mostly from a large middle class, which is not to be expected in the midst of the above-mentioned conditions.

I am not in any way arguing that public investment—which is to some extent a form of redistribution and subsidizing, since the resources are not assigned through the market process—is indispensable, nor that private investment must always lead to the above-described situation. I am simply saying that, while private investment is ideal where the general population possesses an adequate economic endowment (because, among other reasons, the economic information every individual has is properly made use of only in the market economies), public investment might be better able to determine social priorities under different conditions because it is not motivated by profit. Of course, public investment must never be funded by running the country into debt or sweeping inflation, and limited only to supplying the benefits which private entities are unable or unwilling to offer. Falling into a full blown mixed or Keynesian economy is to be avoided. Although the creation of employment by the government is not in itself anti-libertarian prax-

is, the justification of a state enterprise depends not only on the benefits it provides, but also on the legitimacy of the resources needed to run it.

In practice, over the long term, real costs are more likely to come down where private investment predominates, given the greater display of creativity brought about by competition, the usual higher cost of state enterprises (due to the bureaucracy essential to their functioning and to the subsidies granted to unproductive privileged groups) and the greater level of employment expected to be achieved by the market process. But our concern is the possibility that unfair-advantage-trade corporate demands may add more to consumer costs than the higher expense incurred in running a state enterprise, making unavailable for the poor sectors of the population the access to vital services, or implying for them sacrificing the enjoyment of other fundamental goods of the culture. One of these is a universal meaningful opportunity, which market mechanisms cannot guarantee themselves. It is true, as von Mises said, that economics deals not with perfect beings but with real men and how they act (*praxeology*). But that is why it is not up to such sciences but to ideology to tell between licit and illicit economic pursuits. And it has been the action of real men which has created orders of right integrating the particular with the social.

It is through such integration that we can solve the matters related to priority and subsidiariness, which will necessarily appear in the measure that the nomocratic notion of society develops within a group. In any case, the amount of absolute wealth a group possesses is not an overall indicator of the social well-being enjoyed by that group. Every social pact reveals the will of men to pursue a common good, and everyday toils to better one's lot are framed within this. In those prosperous countries where material wealth is adequately—nomocratically—spread, its redistribution may become an obstacle, and even contrary to right. In other circumstances, it is a social imperative. Every economic system must be guided by these fundamental-ist ethical normative criteria. They will provide the best outcomes—of integral bio-psycho-humanistic economics, not merely of global indexes and indicators of productivity and financial activity—under equal circumstances, while neglecting them will always result in failed economic models as soon as the situation which temporarily made them seem functional eventually disappears. Economic parameters transcend the mere form only by incorporating contents of right. Often, the *equilibrium* of supply and demand achieved by the market prices is simply due to the fact that the twig will break at its weakest point.

²Friedman, M., *Capitalism and Freedom*, Ch.XIII, p.198. The University of Chicago Press, Chicago 1982. The question of a graduated or progressive tax—tax exemption is the first step of the ladder—versus a proportional one has no easy answer. It is evident that many who favor progressive taxation are simply motivated by envy, and once escalation starts no one knows where it will end. Equally evident, taxing to the point of eliminating profits is equivalent to confiscation. Besides, he who produces the most receives the most from society in total amounts, but not percentage-wise, and therefore it seems that the percentage to be taxed must be the same for all. Another argument against graduated taxes is the possibility that it may result in different pay for equal labor or equal pay for different labor. Let us remember, however, that though transcended by freedom this is also a common phenomenon of the market. There is also the possibility that a progressive tax may hinder the rapid formation of new great fortunes

while favoring old ones and fostering the rise of monopolies. It is also said that a fixed tax rate favors savings and wage rises, although the latter is not by all means clear. All of this without taking into account that production would stagnate if business people were forced to make less in order to stay out of higher tax brackets, where incentives for additional effort and investment risk are smaller. In spite of everything, I believe that progressive tax may not be harmful if it is applied temporarily, in special circumstances and on the condition that no tax bracket impede the advancement to a higher level of material self-fulfillment. The best use of the progressive tax—clearly more rational than a thoroughly high direct one—would be in situations of great social need, although it would be interesting to know whether replacing the income tax for a proportional one on expenditures would result more efficient. In the previous edition I think I expressed myself incorrectly and justified selective taxation, which—except perhaps in some limited spheres—is actually a hidden confiscatory measure. It seems to me that I had in mind the right of state to appropriate vitally needed resources, since this contemplates their future restitution.

³Gandhi, M. K., *Hacia un socialismo no violento*, Ch.V, ¿*Qué es ser socialista?*, pp.27-29. Editorial La Pléyade, Buenos Aires 1977. The Marxist passage is from Reuten, G. and Williams, M., quoting another author in *Science and Technology*, Vol.57, No.4, p.421. Winter 1993-1994, New York. Let us note that while both socialism and Hinduism (this through its caste system) restrict social mobility, only in the former there is an unnatural split and a contradiction between the ideological framework—abolition of social classes—and its praxis—the creation of a social hierarchy through centralization and super-institutionalization—which shares with several non-socialist tyrannies. Hinduism does not fit any socialist scheme because it does not seek equality and given its express acknowledgement of social classes. And expanding its principles, it could admit an increased social mobility. In socialism, any social stratification taking place through free interaction or merit is bound to be done away with by the tendency to aparcerization.

⁴Gandhi, M. K., *Ibid.*, p.33. In his thought, Gandhi follows a philosophy of detachment from material possessions, unfortunately misunderstood even though he admits it is practically utopian for the common man. Still, the ideal state for him is that of the bird who seeks every day to satisfy its basic needs. If this was the ideal state of man, he would die of starvation whenever any problem prevented him from gathering his daily bread. Mahatma Gandhi states that God will provide. That may be true, but God provides for the needs of man through indirect, that is, natural means. He never extends a hand to give, except when He personifies Himself in this world. Thus it is that God has provided man with intelligence so he may develop the resources to meet his own needs. If he does not do as God commands, promote his own growth, store up for the morrow and build a better future, God will *punish* him: he will suffer the consequences when adverse circumstances prevent him from meeting his basic needs. Besides, Gandhi identifies socialism with non-attachment and a lofty spiritual disposition, which even transhistorically can be proved to fall outside the political realm. He may be heeded when he admonishes us to curtail our needs on our own, but not when he states that having more than we need (or are able to prove that we need) incites others to steal from us. He uses the term “need” in a most narrow sense, and dismisses merit as a source of respect and right. On

pp.37-38, Gandhi speaks of the indolent millionaire and of a presumed need to earn our daily sustenance with the toil of our bodies. It would seem that Mahatma did not consider the brain as a part of our bodies.

⁵McNally, D., *Against the Market*, pp.213-217. Verso, London,1993. Among other things, the author affirms that by the creation of the labor market from the ashes of feudalism, the workers became separated from the means of production, as it happens typically in Western Europe. But capitalism has only modernized such a market, and the rationality of the ownership of the means of production does not lie on being a direct producer, to say nothing about who really is a direct producer.

⁶Russell, Bertrand, *The Basic Writings of Bertrand Russell*, from Principles of Social Reconstruction, 53, Property, p. 491. Simon and Schuster, New York 1961. His opinion contrasts with the following: "In Roman agrarian law there was a clash between the public and private ownership of the land. The latter is more rational and must therefore be given preference even at the expense of other rights".* Quite true: collective ownership carries the seed of discord because of the different wills regarding its administration. Not so with private ownership.

⁷Hayek, F. A., *The Road to Serfdom*, Ch.VIII, pp.103-104. The University of Chicago Press, Chicago 1975.

⁸Hayek, F. A., *Ibid.*, Ch.X, pp.136-138. The socialist disposition of assigning common ends to the persons has unleashed innumerable conflicts, as Nazism exemplified, even though racism is truly to blame. Obviously, racism is not exclusive to socialism but it is fostered by it. Perhaps overgeneralizing, and to a lesser degree, this phenomenon may also be observed in sports rivalries, intercollegiate and others. There is room, however, for assigning common ends to men in certain cases, as for example when rivalries among local industries prevent a unified trading policy towards foreign markets, which would strengthen the local's bargaining power. An institutional regulation limited to create a unified front—at least in certain spheres—may sometimes constitute an organic requirement of society.

⁹The first type of socialist I have been able to identify is usually well-intentioned, like Gandhi. He does not mean to dispossess and, as a rule, is truly humanitarian. He usually appreciates human creativity in its artistic, scientific and other aspects, but not in the economic one. And he objects to private property in every imaginable way, arguing that it corrupts man. As long as this sincere and humanist type does not steal the property of anyone, capitalists have little against him. But he lacks in both wisdom and maturity.

A *problem* inherent to capitalism, and which socialism avoids, is that individual triumph and failure are more evident in the former. In socialism everything is diluted. This aspect, desirable to many, is obviously the result of both a reluctance to accept that some are better than us and a tendency to underestimate our personal achievements. This last sentiment characterizes another type of socialist, the self-doubting one. This one dreams longingly of the abolition of social classes, not realizing that only absolute equality in every order would accomplish that. It is true that under capitalism competition makes some stand out, but this worries self-doubting socialists needlessly. They do not value themselves as individuals. They lack pride and

*Hegel, G. W. F., *The Philosophy of Right*, Abstract right, 46, p.23. *Grandes libros del mundo occidental*, Encyclopedia Britannica 1952.

faith in themselves. Some would take care of parasites because that is what they themselves are. They brand excellent creators of wealth as selfish, of course, and speak only of needs, never of the right to what work has created. Socialism to them is merely a convenience; these parasite socialists are lacking in sincerity.

And then there are others who are more apt to identify themselves with Marxist-Leninists. The interests of capitalists and proletarians are irreconcilable to them. They brand all entrepreneurs as exploiters and try to pass for humanitarians by offering to distribute the wealth of others. This characterizes the worst of all socialists, the envious one. Many of these are not exactly poor, but in some strange way the wealth they cannot justify for entrepreneurs they justify for themselves. This type of socialist believes that he deserves everything. He is a despot, and lacks the humility to accept charity. That is why he would have the state provide him with everything, and absent that, he envisions himself the object of imaginary rights. And while deep down inside he knows Marxist principles are false, he tends to accept them in order to deprive of honor the object of his envy. Rather than sublimating his envy and greed, he politicizes them. He cannot accept, if under the employment of a prestigious enterprise, that he is its beneficiary and is indebted to it. He would rather feel obligated to an impersonal state. As we said before, they are lacking in humility. All these types of socialists interface to a greater or lesser degree. In one way or another, they all share the desire to see social classes eliminated, but do little about it because most either are still rooted in democracy or do not really believe what they advocate.