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The Road Away From Serfdom

By Dick Armev

Editor's Preview: According to a U.S. Department of Housing and Urban Development study, the current condition of the nation's 1.3 billion units of federal public housing is so bad that it will take at least \$21.5 billion to repair and modernize them. What is the study's recommendation? Tear the units down and build new ones. But why should we repeat the old mistakes and demand that the taxpayer bear the burden? There is another alternative—let the tenants repair and even buy their own units; in fact, many tenant groups have already petitioned the government to let them do just that.

The growing privatization movement calls for the return of public services and facilities to the private sector. Privatization has made tremendous popular advances worldwide and may indeed prove to be one of the most significant economic and political success stories of the 20th century.

In this essay, Congressman Dick Armev explains why privatization is essential to preserving our heritage as a free and responsible nation. "The Road Away From Serfdom" was originally presented during the April 1987 Ludwig von Mises Lectures and appears in "The Privatization Revolution," Volume XIV of the Hillsdale College Press Champions of Freedom series.

Although I currently serve in Congress, I regard myself as a free-market economist—a price theorist and a microeconomist, to be precise. Yet I was not introduced to the work of great free-market theorists like Ludwig von Mises or Friedrich von Hayek as an undergraduate or even as a doctoral student. Indeed, it is safe to say that *Human Action* and *The*



Road to Serfdom are rarely read in American universities while books like John Kenneth Galbraith's *The Affluent Society* is widely read and discussed as if the Great Society programs it rationalized were not in total disarray today.

Why do some economic theories remain popular even when the policies and results they have wrought are under serious question? I have been acutely aware of the answer to this inquiry ever since I discovered as an academic professor that macroeconomics is typically more popular than microeconomics: Easy ideas are always more quickly accepted than hard ideas. Galbraith's ideas, which were always more like scenarios than science, made their way into our government, our schools, and our entire way of thinking because they were so easy to grasp and to explain to others. As much as any other reason, this is why I ran for political office:

to help in some small way to undo the damage Galbraith has done.

Recognizing Constraints

Galbraith set forth the notion that the American economy required a "social balance" which would mean the transference of the control of our resources from the private to the public sector. He, as much as Lyndon Johnson, was the architect of the Great Society. He ignored the reality that things only happen when someone makes the decision to do something, that the world revolves around choices. Every choice is between what Samuelson called the "minima" and the "maxima," but even extreme positions must be chosen within a limiting set of constraints.

The trouble with Galbraith's theory and, ultimately, the greatest evil of *The Affluent Society*, is his refusal, replicated by President Johnson in his ill-famed guns-and-butter speech of 1965, to acknowledge this basic truth. There are no limits, no constraints, they claimed instead, so we don't have to be careful about husbanding and allocating our resources among competing ends. Today you can witness many government policy-makers in action who don't recognize even the most ordinary constraints in the way you or I would. We are all intimately involved, for example, with the principle of budget constraints, sometimes called "fiscal responsibility." If we spend more money than we earn, the check at the grocery store bounces and then our car may be repossessed or our house. We face direct and unpleasant consequences for our profligacy. Does anyone

really suggest that the government fears the same?

Each and every day of our lives tells us that there are constraints on time. This is, perhaps, the most fundamental and universal fact known to man: life is temporary, limited. Yet our government's lifespan is hardly measured in the same terms.

Another vital and undeniable constraint is scarcity. What makes gold precious is that there is so little of it to be had, and the same goes for any other resource, whether it is water, energy, concert pianists, or life itself. We are limited in all that we do and all that we seek. Yet Galbraith and many of our government representatives would have us believe otherwise. They play upon our resentment of those richer or more successful than ourselves, a resentment articulated many years ago by Thorstein Veblen in his highly influential book, *The Theory of the Leisure Class*, which painted the upper strata of our society as indolent, self-indulgent and hoarding.

The modern redistributionists don't carry their dog-eared copies of Veblen or Galbraith in their back pockets, but they don't need to; they've already been given the intellectual framework from which they can operate. Their first task is to convince us that we're not running our economy or our lives well enough on our own. We need their help, they argue. "Look at the terrible shape America's in. The problems are too big for individuals to solve. Let us help." And they offer us, simply, more government—more government along Keynesian lines with many instruments of what I refer to as "government by deception," not the least of which is deficit spending, in which the true costs are hidden from the people who, of course, pay

About the Author

Often in the news for his forthright conservative views, Congressman Dick Armey, a Republican representing the 26th District in Texas, was recently reelected to a second term. He serves on two key committees—budget, and education and labor—and he also chairs the House Task Force on Privatization. A former university professor and chairman of the economics department at North Texas State University, Dr. Armey has written two textbooks on economic theory: *Price Theory* (1977) and *Introductory Economic Concepts* (1971).

the bills, or through another instrument, corporate taxation, which is sold to the voters as if it had nothing to do with their own incomes.

call it a "fire sale." With unbelievable audacity, some say, "You want to sell the government's property to the people of this country?" (And that is the talk which sells

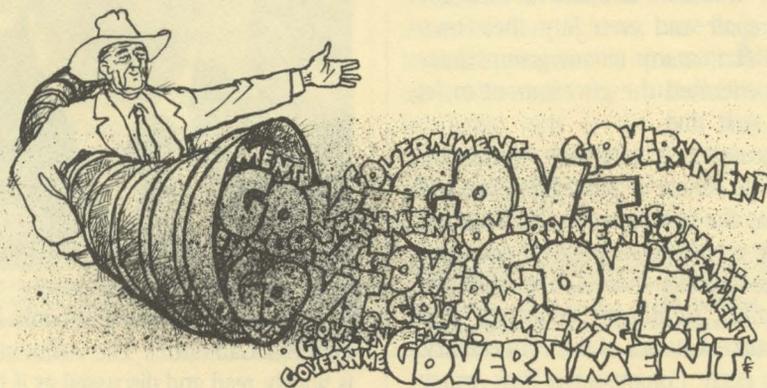
"We are no longer able to distinguish between the legitimate roles of the private and the public sectors, and, more often than not, it is the former which is wrongly characterized as irrational and inefficient."

Privatization

Privatization has become the great safety valve, especially for conservative politicians, Republican, Democrat or otherwise. Transferring a very small number of services back to private hands one at a time is far less traumatic and far more feasible than trying to reduce the size of government in a frontal assault on whole agencies or departments. In Congress, a privatization task force of which I am a member has been gaining influence,

in Washington.) Transferring the ownership of property or services to private control on the basis of rational market decisions and clearly defined objectives is often misrepresented as robbing the government or even "the taxpayers" (an entity some refer to as equally unconnected to actual individuals), but nothing could be further from the truth.

Armey's Axiom Number One: The market is rational. The government is dumb. That is not merely a cliché. I used to teach an entire graduate course in order to reinforce such



and public concern about the deficit has been a key advantage. The task force outlines three basic methods of privatization. One is contracting out certain services. Private companies, for example, may bid on running commissaries on our defense bases or computer work or printing jobs that may be handled more inexpensively and efficiently by outside firms.

The second alternative is asset sales. This along with the third method, selling loan portfolios, can be much harder to follow because of the high visibility each entails. When it comes to privatizing railroads, public utilities, federally owned buildings and the like, critics are ready to

a premise. Individuals face sobering constraints every day—money, time, resources—and they do not, on the whole, make heedless decisions.

We taxpayers (and I do mean we individuals) pay \$650 to \$700 million dollars a year to subsidize passengers riding Amtrak. Is this rational? Of course not, and when the case is this extreme, as with the deficit, people do understand and respond.

The Great Society changed the nature of government spending and taxation—in short, the whole landscape of our economy. But we have lost more than money in the process. We are no longer able to distinguish between the legitimate

roles of the private and the public sectors, and, more often than not, it is the former which is wrongly characterized as irrational and inefficient.

How to Think About the Deficit

Right now we have a lightning rod in "deficit mania." So, since people rarely understand the real problem, we might as well educate them about the symptoms. The deficit, let me stress, falls into the symptom category; but it may be the best "two-by-four" with which to hit people over the head when it comes to making them understand our larger dilemma. Even Democrats who have never been, even by their own admission, feverent budget-cutters, are making fiscal responsibility a headline issue today.

But our true task does not lie in eliminating the deficit. (Considering how Congress usually spends money, the interest paid on the deficit may be its all-time best investment.) We have to cut the size of government. Bring it back to its proper size. Put it in its place. This isn't an economy measure—it is absolutely necessary if we are to continue to thrive as a constitutional democracy. But in a highly practical way, the deficit can be the tool we use to convince others who don't understand.

Restoring limitations on federal power is not easy. When Congress or the administration tries to cut spending, critics call them heartless and claim that the critically needy will suffer. The wise allocation of resources will lose out every time when the choice is presented as between

government services and no services at all (as if the private sector didn't exist). The Keynesian presumption is that if government doesn't do it, it won't get done, and if the government doesn't spend money on worthwhile programs, the money won't be spent and the programs will collapse. That is how far we have come in two hundred years.

Arney's Axiom Number Two: You don't have to be a conservative to want to get the government off your back. Two black leaders with whom I met recently, both women who have been lifelong Democrats and public housing tenants, agree. If we privatize public housing, will people be homeless? No, they say; give the poor

What this woman desires is the protection of her right to make her own decisions; hers is not an ideological passion.

In the last few years, the Congressional Task Force on Privatization created several bellweather proposals, of which loan portfolio sales were our flagship. We felt we could build a constituency behind them very quickly and with minimal political resistance. Of all of the proposals, "urban homesteading" is, perhaps, the most appealing. People who now live in what we call "the projects," government housing that's been mismanaged and which is falling down around their ears, have been reduced to wards of the state. We must give these people the opportunity first to organize and manage their own buildings

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vouchers and they will find their own cheaper residences. One of these women has remarked time and time again, "I don't want the government rebuilding the plantations." She understands that she does not want the federal bureaucracy as the slum landlord of the '90s and she does not want to be its victim. The lesson is obvious.

and then to buy their own homes. Home ownership carries with it a strong sense of responsibility and there is no doubt that it helps families stay together. When fathers own their own homes where are they? Out carousing? No—they're home with their heads under the kitchen sink, or painting the walls, or fixing the shingles, or doing

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the yardwork. Teen pregnancy rates drop dramatically too, and often homeowners band together to drive out drug dealers in neighborhoods where urban homesteading initiatives have been implemented.

A recent article in *The Washington Post* comments on these privatization initiatives by noting that fathers who return to participate exhibit a surprising number of skills the welfare and housing experts never

could have an influence on my peers in Washington, I hired a private postal carrier to send a "Dear Colleague" letter to all the members of the House. It began, "This letter is being sent to you illegally. But I could deliver it to you for five cents a copy. . . ." The United Postal Workers Union was outraged, and I couldn't convince Congress to go along with postal privatization then; however, every year

the Great Society. This kind of spending has bought whole constituencies and has created, ultimately, the Dependent Society.

Less Government is More

We must not simply attempt to cut federal aid. Democrats and Republicans alike will fight for their constituents who crave and demand aid. What we must do is to offer these constituents something better than a "free lunch"; we have to convince them that privatization will bring direct benefits and mean more opportunities to share the American dream.

Politically, what ought to arise out of the privatization movement is not a realignment of power but a return to an older way of thinking, that less government is more; more economic prosperity to go around, more creative energies unleashed, and a more responsible, self-reliant and independent people. This democratic republic was founded in order to guarantee equality of opportunity and the freedom and dignity which comes from being one's own person. For a government to try to do more is to jeopardize the very rights it aims to protect. I want to reiterate that privatization is not just a passing economic fancy or a way to trim the deficit; it calls for a restoration of ideals badly needed if we are to prosper as individuals and as a nation. 

"We have to cut the size of government. Bring it back to its proper size. Put it in its place. This isn't an economy measure—it is absolutely necessary if we are to continue to thrive as a constitutional democracy."

knew they had. Plumbers, carpenters and electricians abound. As tenants of public housing, these men were forbidden to make improvements by statutes requiring all repairs to be made by union workers at prevailing wages. Naturally, few tenants were willing to pay for repairs or take an interest in the condition of housing which did not belong to them.

As a freshman congressman, I experienced far less success with the idea of postal privatization. Persuaded that I

privatization of all sorts of "sacred cows" like the postal service, Amtrak, health care and so on, is becoming more attractive to an increasing number of Americans. The biggest roadblock is the Democratic Party, even though its individual members are often in favor of privatization. Why? Because in 1965 federal spending, previously only for capital goods, was expanded to include consumption goods with the intent to redistribute wealth along the lines drawn by Galbraith, Johnson, and

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