

BUREAUCRACY v. THE PRIVATE SECTOR

by Dr. George C. Roche III

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Dr. Roche is the author of five books and numerous articles, a contributing editor to two journals, and writes a weekly newspaper column. He delivered this presentation on the Hillsdale campus in the Center for Constructive Alternatives seminar titled "The Power of the Purse String: Taxes and the IRS."

One of the great sources of strength for America has been our status as an open society. Within that society the individual has been free to provide for himself and his family, to compete with others, or to combine with them in private voluntary associations. We have been free to support those professions, businesses, schools, hospitals or churches which best met our individual needs and preferences. In other words, we have prospered with competition and voluntary association, with the private sector in all its diversity.

We have done this in America, not through any commitment to an abstract ideology, but because we found it to be a system which works well. In the words of George Santayana, "The American people have made a philosophy out of not having a philosophy." We have found that the system works not only in the production of wealth, but also in the redistribution of wealth into all those channels of society where people felt it would yield the greatest results. We have proven that when men have the right to form those private, voluntary arrangements which solve their problems and meet their needs, both they and society will prosper.

The system has worked beautifully beyond the wildest dreams of the most utopian social planner. But it has worked precisely because we have allowed these voluntary associations the right to compete, the right to be different and the right to be uniquely themselves. When competing services are available,

people have a choice and every choice extends freedom a little further. Competition and voluntary association change freedom from an empty battle cry into a vital part of everyday life.

Such freedom gives people the opportunity to make decisions on the basis of their own needs and preferences. And those decisions are not merely an additional freedom — they are freedom itself. When we have real control over our lives and preferences — over how we earn a living, worship our God, educate our children — real freedom is present. In the absence of such choices, words like freedom become meaningless abstractions.

Competition and voluntary association, sometimes called the private sector here in American society, have done more to provide the essential mechanism of freedom than any other single element in our national make-up. We Americans have made freedom work. Those most progressive occasions in American society, in the best sense of the word, have been those occasions when our society was most truly free. And it is the private sector which has made this possible.

In recent years we have been treated to the spectacle of a major intellectual effort calculated to convince us that government is simply another potential competitor in the marketplace. Professor John Kenneth Galbraith, for example, has developed the theory of "countervailing power," the theory that large blocks of power within society will

balance one another through some sort of gigantic competitive process. In this new rationale, phrases such as "private sector" and "public sector" are used as though they were competitive units. Nothing could be further from the truth.

In the first place, the private sector is not a single entity, but is a vast and constantly shifting matrix of institutions, each striving to respond, to compete effectively, in reaching its own constituency. There is no single private sector, but actually a multitude of private sectors, each striving to compete most effectively for its own audience. To view the private sector as a single entity betrays an enormous misunderstanding of what the competitive process is all about.

Professor Galbraith and the advocates of the "public sector" have misunderstood competition in another way as well. The assumption that the public sector is simply another competitor in the marketplace, that government is merely another institution competing to meet American needs, is surely one of the most confused and confusing ideas of our times. Competition only does its job when the rules are neutral and when the individual consumer acts as referee and final arbiter. Competition cannot provide its benefits when one of the "competitors" supplies the ground rules and judges the play.

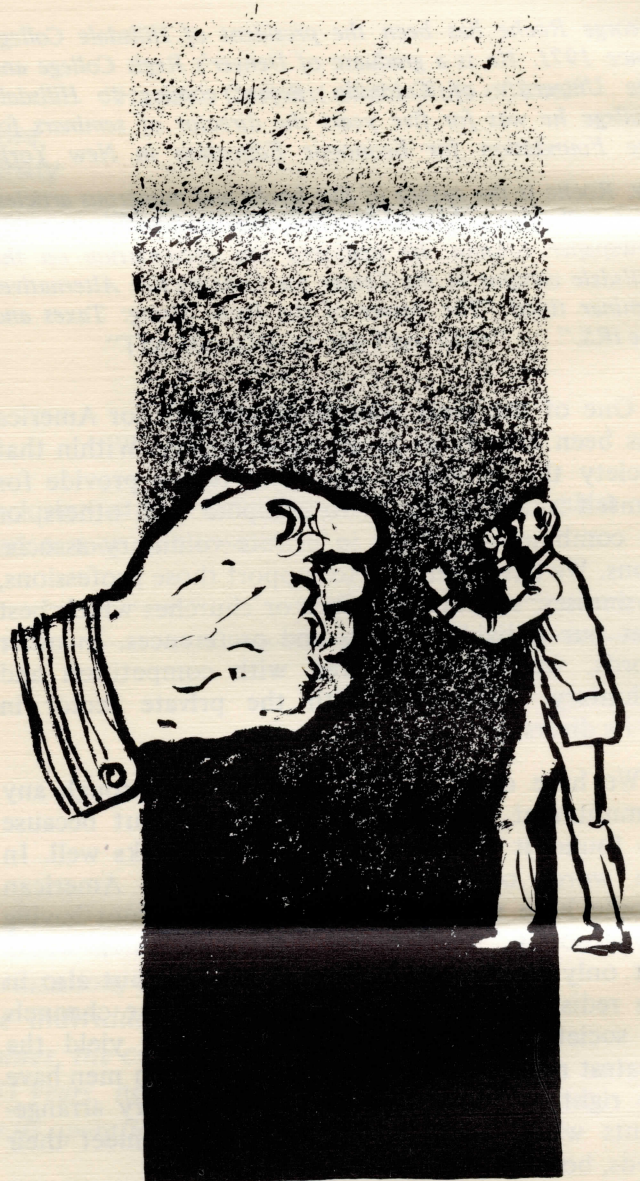
When a public service is provided by an arm of government, and when it is another agency of that same government which dictates conditions to the competing private institutions, we cannot expect impartial treatment. We find ourselves all too readily in a situation where it is the bureaucracy, and not the American people, which chooses between the competitors. Consider, for a moment, all of the advantages which lie on the public side and which work to stifle effective competition.

In the first place, the public institutions are supported by a bottomless public purse. Not for them the close and careful accounting which is needed in the private sector. Not for them the careful decisions of marginal utility. The private institution has to balance its books or go under; its public competitor can simply reach deeper into the apparently bottomless purse of public taxation. The private institution has to raise money on the basis of what its supporters will freely give; if it cannot raise any more, it cannot spend any more.

Compare that with the finance of public institutions. If they need more money they have, through their government masters, the power to *compel* more money from the American people. It is a sorry reflection on public institutions that no one even *expects* them to show any degree of financial competence or efficiency. It is taken for granted that it will cost them more money to provide a

poorer service. None of them has ever had to learn lessons in that hard but superlatively efficient school of threatened bankruptcy!

The private institution labors under another disadvantage — one which has been particularly relevant in recent times. No benefactor or donor to a private institution can increase his contribution by turning out a supply of extra currency on his printing press. This is strictly a governmental function. When anybody else engages in that particular line of work where the government does not like competition,



they are called counterfeiters. But when government expands the supply of money, they do not even need to tax directly. By creating more, they effectively tax the purchasing power of such money as already exists, thereby leaving again a declining purchasing power left over for the private sector, and for those people who would exercise their preferences there.

One might suppose that a poorly disciplined cost control in the public sector would have little impact on private institutions; but consider what it means for schools, colleges and hospitals. It means that the government-run concern can always finance its projects, without concern for consumer demand, without an eye to cost. When called to account for inefficient and non-responsive operation, public institutions invariably plead that "only the best is good enough for the American public." What this means is that from their bottomless purse (provided by courtesy of the American taxpayer) they can bid for whatever they want without regard for its necessity, its efficiency, or for any rational justification. Any private institution which tries to compete effectively with this largesse will find itself gazing at the all-too-visible bottom of its own, far more limited financial reserve.

An even greater advantage to the public institutions is afforded by the principle of double payment. Put very simply, what this means is that you have to pay for the public provision, whether or not you wish to make use of it. Only if you have enough money left over to pay for the private provision are you able to patronize it. In other words, every one who wishes to exercise his freedom of choice by using a private institution must pay twice for one service. He has to pay for the public service which he does not use, as well as for the private service which he does use.

Since people have no choice over taxation, they have to pay for the public institution; and when the money to finance it has been forced out of them, they are offered its services "free." The choice then facing them is that of choosing between something which they have already been forced to pay for, and which is therefore available free or at reduced cost, and something for which they must pay again, at full cost. The most amazing testament to the poverty of public provision of services is that, given this choice, so many people *do* elect to pay again in order to obtain a service worth having.

If one looked for genuine competition between private and public institutions, the most obvious policy would be for the IRS to treat equally the money spent on private or public services. If a man or woman spends money on private education, for example, it should be regarded by the IRS as part of their taxation. People who opt for private institutions are exercising the free choice to patronize private, rather than public, services. Since they make no claim on public services, it would seem entirely reasonable for the IRS either to refund the taxation taken for that service, or to treat the money expended on the private service as taxation spent in another way.

Unfortunately, the IRS is not a reasonable organization. By insisting on double payment for those who prefer private institutions, the IRS is limiting choice only to those who can afford to pay twice. A large number of Americans in the middle range of income have the choice denied to them by the government's pre-emption of money which they would have used to back up their own decisions. Only those who are rich enough to have any left after paying for the government system can have effective choice in the private market. So the IRS policies reduce the number of persons able to take advantage of the private sector, and in doing so, they reduce their customers. Even that possibility of choice is being systematically taxed out of existence as so-called "loopholes" are closed.

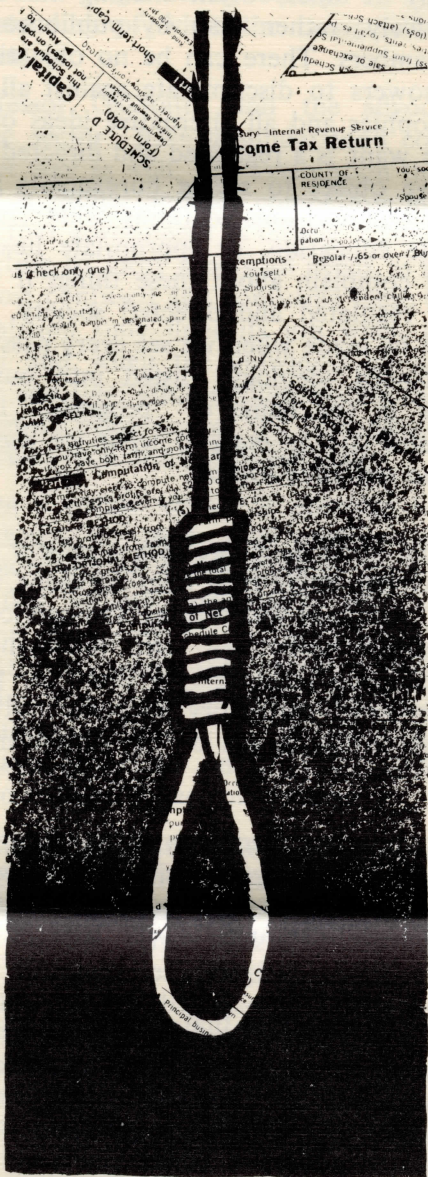
Of course, the IRS does allow payments made to some private institutions to be tax-deductible, *but only provided that they are approved institutions*. Now quite apart from the fact that these payments should be offset against *actual* taxation instead of merely being *exempted from* taxation, let us take a look at what this phrase "approved institutions" means.

What it has been taken to mean is that even this minimal concession will only be allowed to those private institutions which fall in line with the philosophy of the public institutions. It means that the whole point of competition, which is to make real alternatives available for free choice, is denied.

What it means in practice is that any private institution which wishes to offer a *genuine* alternative will meet a steadily greater interference from government, with IRS policy as the key weapon in the bureaucratic arsenal compelling compliance. And the result will be that only the rich will be able to afford the luxury of choice. We all know the next step; we have seen it in Britain. When tax policies have limited choice to the rich, it is an easy matter to whip up envy and resentment against the privileged few, and to demand equal treatment for all. This is the way in which the last remaining loopholes of choice are blocked off to the people, and the grey uniformity of universal state standards is imposed.

Not too many years ago we were assured by government planners and by many educators throughout the nation that government subsidy of education would not bring government control. How distant and dated such assurances seem now. Those institutions which have chosen to sup at the government table now find that they are subject to a great and growing mass of bureaucratic control. National social engineering projects on the part of the public sector

are replacing private standards with public standards concerning what teachers are to be hired, what students are to be admitted and what is to be taught in the classroom. Political pressures are rapidly replacing private standards as the arbiter for most educational decisions undertaken today. If anyone should doubt this, consider as an example the vicious principle of racial and sexual quotas which is now imposed on most of higher education in the name of a spurious "equality." One is reminded of George Orwell's *1984* in which we are all equal, but some are more equal than others.



Examples could be multiplied from all aspects of American institutional life. How we earn our livings, plan our lives and educate our children are all decisions made more and more by the public sector. Somewhere along the way we have largely lost the problem-solving capacity, the diversity and the freedom which the competition and the voluntary association of the private sector provides.

Remember that the private sector and the whole idea of voluntary association can only function when individual citizens have sufficient control of their own resources to support those institutional structures which they feel should be supported. Money *has* to come from non-governmental sources if private institutional structures are to function, and those doors are now being systematically closed.

Now we face the most serious attack ever launched against the private sector in education. Each year the noose is being tightened a little more around the private sector through changes in tax legislation. One of the most immediate threats is that gifts of appreciated property may no longer be tax deductible, and that gifts of appreciated securities may be subject to capital gains tax. Both proposals have been defeated in previous sessions of Congress, but the present sentiment evident in Washington, D.C. raises doubt concerning the future of such exemptions.

Such proposals may seem no more than legal technicalities of no particular interest to the average American; but the consequences would be devastating. In simple terms, the proposal on appreciated securities would mean that anyone buying stock which grew in value would have to pay full capital gains on the amount of appreciation if that stock were then given to a college or other private institution. In other words, people would be taxed on a gain which they had not realized; and for every such gift to an institution, the donor might ultimately pay almost as much again to the IRS.

As for gifts of appreciated property, current Congressional proposals suggest that they should be eliminated entirely, making them no longer deductible after 1975. This may sound academic, but the threat is very real. About 30 percent of the funding of the churches, hospitals and schools in the United States — 30 percent of the total funding — comes from gifts of appreciated securities or appreciated property.

Consult the school, hospital or church closest to your own experience and subtract 30 percent of its operating income in a given year and I predict that that institution will have its financial head under water. I know of no exception to that rule. We would certainly be affected here at Hillsdale College. So we are talking about life or death control, about the very existence of the private sector, just in that single tax item. And rest assured that this is only an example. There are other tax proposals coming up in every session of Congress with the same intent in mind.

Another item currently on the Washington scene

is an attempt to expand the definition of public funding still further. Some institutions around the nation, Hillsdale College included, have systematically and consistently refused federal funding. Yet some few of the students attending such institutions do derive a portion of their support from federal loan programs, veterans' benefits or similar programs. It has been the Hillsdale attitude that there should be no discrimination against these students because of the sources from which they procure their funds. We and a number of other institutions have regarded this as a problem which relates to the student and not to the institution. Now a move is afoot to reclassify all such institutions as recipients of federal funds even though those institutions involved have not received a penny from the federal government. If such a classification is once accepted, all of the HEW directives governing faculty, students and curriculum, the whole weight of government regulation of education, will be brought to bear on those few institutions which have so far remained independent of the public sector.

These moves are no more than examples which illustrate the determination of the aggressive attack launched by the public sector on those portions of the private sector where some diversity and quality still remain. Consider, for a moment, the implications. It means that students who negotiate federal loans, that veterans who make use of veterans' educational benefits, are no longer to be regarded as independent agents. Now it is to be the school or college which counts as the recipient of federal funds, not the individual. And the Veterans Association, which has always taken care to establish that benefits were designated to the veteran personally, now sees the recipient limited in choice to only those educational institutions which espouse the public philosophy.

Hillsdale College has no intention of having its freedom removed by this backdoor subterfuge. Our philosophy of equal opportunity without discrimination by reason of race, religion or sex, has always been a voluntary philosophy. We have sought to preserve equality with dignity, and to encourage the recognition of equal worth and mutual respect. It would be a betrayal of our entire history if we now surrendered our freedom and independence, and meekly submitted to the thousands of pages of detailed rules and regulations which the bureaucratic mind seeks to impose on us.

These two most recent instances show how very late in the day it is for the private sector and individual choice. The story of what is happening in education is a story which the American businessman, clergyman, physician or private citizen in any walk of life could amplify at great length from his

own experience. Governmental regulatory authority plus governmental taxing power touches every aspect of our lives. The IRS is only one portion of the enormous bureaucracy which seeks to mold and direct our existence, but it is a very potent portion of that bureaucracy because it controls the purse strings.

Ultimately the question comes down to our asking "What sort of society do we want?" If we have no objection to a directed and regulated society, then there will be no objection to the bureaucracy operating in the way it does, often making its decisions administratively, rather than by public consent in elective chambers. There can be no objection to it using its powers to discriminate against all alternative philosophies and all alternative ideas of service if what we want is a regulated and directed society. Nor can we object to seeing bureaucrats as those who make the decisions, defining what constitutes an adequate education, or appropriate health care. We cannot complain about these things if what we want is a regulated and directed society. And no protest can be made when we see every passing craze and unbalanced ideology foisted into our service institutions in the name of "progress." I repeat: *No complaint can be made if what we want is the directed and regulated society.*

If, on the other hand, we seek a society in which men and women make their own decisions, and have the right to choose institutions and services which are compatible with their own deeply-held convictions, then we must sharply limit the power of the governmental regulatory agencies, putting that power back in the hands of the American people.

Do the American people wish to lead their own lives and make their own decisions, or do we want a Washington bureaucracy to control our lives and make our decisions for us?

I believe the answer to that question is self-evident.

The Ludwig von Mises Lecture Series continues in its third successful year of guest presentations at Hillsdale College. Designed to honor the great economist, the series brings to the Hillsdale campus distinguished scholars and lecturers throughout the academic year.

Presenting the first guest lecture this year was Esmond Wright, former British Member of Parliament, October 22 on "Life, Liberty and the Pursuit of Excellence." M. Stanton Evans, syndicated columnist and author, spoke November 18 on "The Liberal Twilight." The upcoming presentations will be:

January 28, 1976	Benjamin A. Rogge professor of economics Wabash College	"Adam Smith: 1776-1976"
February 24, 1976	Gottfried Dietze professor of political science The Johns Hopkins University	"Hayek's Concept of the Rule of Law"
March 9, 1976	Antony G. A. Fisher British businessman and economic philosopher	"Must History Repeat Itself?"
April 8, 1976	Shirley Robin Letwin professor at Peterhouse, Cambridge, England	"The Morality of the Free Man"

A paperback volume will be published at the conclusion of the series compiling all of the guest lectures. The book will be offered to IMPRIMIS readers as soon as it is available.

Hillsdale College is marked by its strong independence and its emphasis on academic excellence. It holds that the traditional values of Western civilization, especially including the free society of responsible individuals, are worthy of defense. In maintaining these values, the college has remained independent throughout its 131 years, neither soliciting nor accepting government funding for its operations.