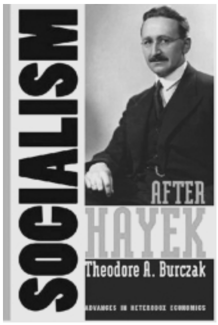
Book Reviews

Socialism after Hayek

by Theodore A. Burczak
University of Michigan Press • 2006 • 171 pages
• $60.00 hardcover; $19.95 paperback

Reviewed by Richard M. Ebeling



There are very few socialists who have actually taken the time to carefully understand the critics of socialism. Beginning with Karl Marx, most socialists have either ignored the arguments of their opponents or constructed straw men to knock down.

This is what makes Theodore Burczak's *Socialism after Hayek* so refreshing and intriguing. He is a socialist who has mastered Hayek's critique of socialist central planning and concluded that Hayek was right: It is impossible to do away with private property, competition, and prices if economic rationality, efficiency, and coordination are to be maintained.

In the opening chapters Burczak explains with impressive clarity the Hayekian view of the social order. Prices are essential for a functioning economic system because they capture and convey multitudes of bits of knowledge that are dispersed among all the members of society. The price system enables each person to use his unique knowledge of his own time and place in the division of labor while coordinating his actions with those of all the other social participants.

As an extension of this, Burczak also accepts Hayek's argument that the social order that evolves out of the interactions of the multitudes over many years and generations contains more information and wisdom than any group of intelligent planners could ever know. Hence, the idea of socially engineering a society from top to bottom is both absurd and dangerous.

Burczak defends none of the twentieth-century experiments with "socialism in practice." He views the Soviet Union as an oppressive and exploitive system that plundered the very people in whose name the regime legitimized its power. So the reader at this point might ask, "Then what is left for a self-proclaimed socialist to defend against the Hayekian critique of political and economic collectivism?"

Burczak tries to salvage a reformulated socialism by justifying the welfare state and defending a system of worker-owned and -managed firms in place of the more traditional "capitalist" enterprise in which the businessman hires the services of workers for which they receive contracted wages.

Since Hayek emphasized that human knowledge is inherently imperfect and is decentralized among billions of individuals around the world, Burczak tries to then paint Hayek as an apostle of "postmodernist" philosophy. Since nothing can ever be known for sure and what is tentatively known is always open for revision, Burczak argues that Hayek's case for impartial rule of law and an equality of individual rights to life, liberty, and property is totally misplaced. The rule of law, he says, is really only the interpretive opinions and ideological biases of judges who serve "class interests."

Since law cannot be impartial and "objective" in its principles and applications, then we should rely on the greater or more inclusive diversity of democratic politics to construct a consensus about what are the "rights" and social "duties" of each member of society. Since there can be no final "truth" concerning what should be considered the content of human rights, we will merely have a floating and ever-changeable group opinion about these things.

Burczak posits a consensus that we all have obligations to each other to assure a meaningful life worth living, which means a mandatory redistribution of wealth to guarantee everyone a minimum standard. He never deals with how this will be enforced, though of course there is no way to establish this guaranteed standard of living other than through compulsory taxation. Because there are no final or ultimate moral standards, the recalcitrant who may have to be brutalized, imprisoned, or even killed to see that he "contributes" his "fair share" will not have been coerced or murdered but merely "conversed" with in the continuing postmodern dialogue over what is socially good or just.

Of course, even if we accept the premise that as human beings we have a certain ethical obligation to assist our less fortunate fellow human beings to have a fuller life, it does not follow that this requires the welfare state. Indeed, one can easily apply Hayek's arguments concerning the division of knowledge in society to argue that only individuals familiar with the particulars of the time and place in which they live will have sufficient usable knowledge to assure that those deserving of charity actually receive it in the most effective way. The welfare state has the same inherent organizational weaknesses as all other forms of government planning: it is imposed from the top down and must have some degree of a "one-size-fits-all" design. Private charity sets in motion what Hayek called the "discovery procedure" of competition. In the rivalry for voluntary support from the citizenry, private charities have to demonstrate their ability to better achieve the goals for which they have been established. Thus the likelihood of actually solving these "social problems" is increased.

The other element to Burczak's "post-Hayekian" reconstruction of socialism is his case for worker-owned enterprises. He merely takes for granted all the ancient Marxian theoretical baggage concerning necessary labor (that amount of work and output needed for the worker to sustain himself and his family) and surplus labor (the amount of work and output in excess of this minimum). Through the wage contract, Burczak states, the capitalist-owner of the enterprise "demands" a portion of the "surplus" output that the workers' own labor produces and therefore "exploits" them by that amount, with this being the "profit" the capitalist keeps for himself.

All of this was answered long ago, in the late nineteenth century by another Austrian economist, Eugen von Böhm-Bawerk. He showed that in the long run, in a competitive market, there are no profits. Entrepreneurial rivalry results in resource prices (including wages) being bid up as enterprisers attempt to expand output where profits exist; then when that greater output is offered on the market, consumer prices are bid down in the attempt to attract more customers until profits have been competed away.

Even in the long run, however, there is normally a discrepancy between what entrepreneurs pay for resources (including labor) and what the products sell for. But Böhm-Bawerk demonstrated that this is the implicit interest earned by businessmen-employers for advancing wages to their workers during the production process. Since all production takes time, if those employed in the enterprise are not to wait until the product is ready for sale in the future to receive their wages, then someone must pay them today for work that will not result in a completed product until tomorrow. To forgo other uses for which he could have applied his savings, the businessman-employer receives a "premium" over even the long-run costs of production as compensation for "waiting" until the product is in finished form and sold to the buying public.

The other element that Burczak completely misses is that production does not just happen. It almost always requires a guiding mind that envisions a demand for a product in the future, who imagines ways of combining the factors of production to transform them into a useful finished product, and who sees ways of effectively organizing the enterprise to achieve this end. In other words, the entrepreneur is the element missing from Burczak's analysis, and therefore he fails to fully understand why what most enterprises produce cannot be the result of some joint democratic decision-making process by the worker-owners.

Nothing prevents workers from pooling their savings and other resources and forming jointly owned firms among themselves. But we see few instances of this. This suggests that many people do not want to take on the time, risk, and uncertainties of being a boss. They want to have the greater certainty of a contracted wage for which they do a specified amount of work each day, while someone else bears the costs of planning, overseeing, and directing the enterprise.

If workers did see the benefits and advantages to more widely participating in worker-owned firms, it would not be necessary for Burczak to make the case for political prohibition of traditional employer-employee contractual relationships to force worker-ownership on "the masses."

While a worthy attempt to honestly confront the challenge that Hayek made against socialism, Burczak's analysis ends up simply demonstrating how hollow the socialist ideal remains, even in this reformulation.

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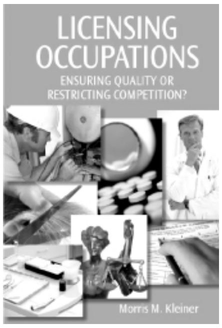
Licensing Occupations: Ensuring Quality or Restricting Competition?

by Morris M. Kleiner
W. E. Upjohn Institute for Employment Research • 2006 • 181 pages • $40.00 hardcover; $18.00 paperback

Reviewed by George C. Leef



Cases of ridiculous occupational licensing regulations are a dime a dozen. One that I came across recently is illustrative. Due to the fact that the diet of horses today contains much less abrasive material than in the past, their teeth need to be filed down periodically. Without that service, called "floating," it becomes painful for a horse to chew or hold a bit.

A veteran horse teeth "floater" in Minnesota has run into trouble with the State Board of Veterinarians, which informed him that he was doing work that fell within the legal purview of veterinarians and because he was not a licensed vet, he would have to stop. No customer of his had complained about his work, so what was the problem? The problem was that he charged only half as much as vets did for the same work. *That* was intolerable. The licensed vets of Minnesota saw an easy way to eliminate competition from this outsider by enforcing the law.

Is there any justification for occupational licensing statutes? The many professional organizations that promote such laws invariably claim that there are laudable public purposes behind them—primarily that they are needed to protect the public against incompetent practitioners. "All we care about is guaranteeing that those in the field have at least achieved the basic level of competence so consumers won't be cheated," they claim.

Should we accept that claim? Morris Kleiner, an economist who teaches at the University of Minnesota and is a visiting scholar in the economics department of the Minneapolis Federal Reserve Bank, takes a careful look at the issue in *Licensing Occupations* and comes to the conclusion that occupational licensing statutes do little or nothing to protect consumers, but do tend to raise the price of services. Kleiner writes, "[F]rom the evidence I was able to gather, there is no overall quality benefit (measured in a number of different ways) of licensing to consumers. Consequently, the cost of regulation to society is higher prices or longer waits for a service. An additional societal cost is the reallocation of income from consumers to practitioners of the licensed occupation as well as lost output."

So once again we find that coercive interference with market processes creates benefits for a few that are outweighed by costs to the many.

Kleiner's analysis involves comparing states that license certain occupations with others that don't. For example, while most states require that practical and vocational nurses be licensed, several do not. If licensing actually raises practitioner quality, Kleiner reasons, then insurance rates for those nurses in nonlicensing states should be higher than in states with licensing to reflect their supposedly higher likelihood of making mistakes. Too bad for licensing advocates—Kleiner finds that insurance rates are no higher in states that don't require licensure.

Kleiner also makes excellent analytical use of data from the neighboring states of Minnesota and Wisconsin. Wisconsin requires licensing for many occupations that Minnesota doesn't. Many of the licensed occupations in Wisconsin are only subject to certification in Minnesota. From the data on complaints filed by consumers, Kleiner concludes, "At a minimum, licensed occupations showed no greater ability to reduce constituents' complaints to licensing boards about the service provided compared to complaints filed in a regime where the same occupations were certified. . . ."

That is an important finding. Free-market advocates have long maintained that private certification—which allows practitioners to demonstrate competency by passing an examination, but does not prohibit noncertified individuals from offering their services (as long as they don't falsely claim to be certified)—is preferable to licensing because it allows consumers to choose. If they think a certified practitioner best suits their needs, that option is available; if they don't want to pay more for a certified professional or believe that a noncertified practitioner can do the work competently, they can make that choice. Certification is consistent with liberty whereas licensing statutes are authoritarian attacks on liberty.

Kleiner makes it clear that the impetus behind occupational licensing is overwhelmingly the desire by professionals to control entry into their field, not a dispassionate analysis by public officials that citizens would be best served if they were forced to choose between doing business with a licensed, state-approved practitioner and either getting no service at all or attempting a do-it-yourself job. *Licensing Occupations* pounds another nail into the coffin of the belief that labor-market regulations are wise policy choices.

Oh yes—the Minnesota "floating" case. It is currently before a state court, and the Institute for Justice attorney who represented the defendant says that the Veterinary Board is pulling out all the stops to show that the licensing statute is necessary and reasonable. I wish someone would send the judge a copy of Professor Kleiner's book.

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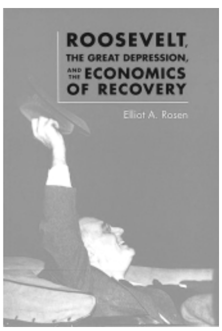
Roosevelt, the Great Depression, and the Economics of Recovery

by Elliot A. Rosen
University of Virginia Press • 2005 • 308 pages
• $39.50 hardcover; $19.50 paperback

Reviewed by Burton Folsom, Jr.



As professor emeritus at Rutgers University, Elliot Rosen has written this book as the culmination of a life's study of Franklin Roosevelt and the New Deal. Rosen's special expertise is on Raymond Moley, who was an ardent member of FDR's "Brains Trust" for many years. Eventually, however, Moley broke with the President and, in his old age, ended up supporting Barry Goldwater for president. In the 1940s Moley befriended Rosen, who was then a college student, and eventually the two collaborated on various books on Roosevelt and the New Deal. As Moley told Rosen, "You are a bright young fellow; I'm sure you can figure out the depression as well as FDR and I could."

Perhaps Moley's evaluation was prophetic. Rosen has crafted a useful account of the New Deal that clearly rises above the usual flattery of FDR and his followers. Rosen is critical of much of the New Deal planning in general and the National Industrial Recovery Act and the Agricultural Adjustment Act in particular. The strong points of the book are Rosen's detailed research into the many factions that tried to influence policy in the 1930s. New Dealers, Rosen reminds us, though eager to use the power of government to do good, were usually divided by conflicting visions of the good society and weren't always above the temptation to send federal largess to groups they favored.

During Roosevelt's first term, those planners who wanted a corporate state had much influence on policy (mainly through the National Recovery Administration). They had, Rosen notes, "plans for control of investment and production, fair pricing, limits on entry, and increased employment and wage levels. . . ." Led by Moley himself for a while, the planners urged a restructuring of business under state direction. Stuart Chase suggested "National and regional planning boards to coordinate the whole [economy]." As Rexford Tugwell noted, "This amounts, practically, to the abolition of 'business.' This is what planning calls for." And it was exactly what they wanted. Rosen here gives us a useful reminder that when government officials plan, individual liberty necessarily shrinks.

At one level Harvard professor Felix Frankfurter opposed the planners; he and others wanted to have government break up business into small units, not consolidate it into large state-directed behemoths. At another level Lewis Douglas, FDR's budget director, was skeptical of the results planning might yield. He wanted balanced budgets and a resuscitation of private business.

Roosevelt became a master at picking and choosing among items on the interventionist menu offered by his advisers. Rosen makes it clear, however, that "whatever ideas Roosevelt accepted from others, it was he who untangled the threads and he alone who made the great decisions of the day." Rosen specifically describes the frustration of Douglas, who would argue, usually in futility, against the President's massive spending increases. Once FDR had his mind made up, no argument would shake him.

Rosen, although critical of Roosevelt, still gives him more credit for competence and consistency than he deserves. In the President's campaign speech in Pittsburgh in 1932, he promised the nation a balanced budget; he pronounced himself eager and willing to end Hoover's spending sprees and unbalanced budgets. When Douglas tried to hold FDR to those promises, he reneged.

More than that, as Turner Catledge of the *New York Times* points out in *My Life and The Times,* Roosevelt would deliberately lie to members of the various factions in his administration. Catledge describes one episode where he wrote an article for the *Times* based on a memo Douglas had from the President showing his willingness to constrain spending. The President then called Catledge in and told him he was disregarding his memo to Douglas.

Rosen might have been better served by paying more attention to what his mentor Ray Moley wrote in his private diary in May 1936 after a frustrating meeting with the President. "I was impressed as never before by the utter lack of logic of the man, the scantiness of his precise knowledge of things that he was talking about, by the gross inaccuracies in his statements, by the almost pathological lack of sequence in his discussion. . . . In other words, the political habits of his mind were working full steam with the added influence of a swollen ego."

Certainly there is more to Roosevelt than Moley suggests in that quotation, but Moley observed something very real about FDR, and few historians have captured the Roosevelt that Moley described.

Nevertheless, Rosen's book is a valuable addition to the growing literature that questions the conventional wisdom that the New Deal consisted of brilliant policy measures that saved the country from collapse during the Depression.

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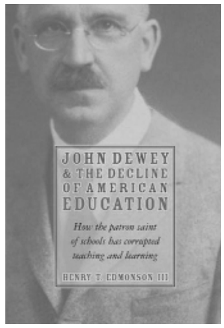
John Dewey and the Decline of American Education

by Henry T. Edmondson III
Intercollegiate Studies Institute • 2006 • 200 pages • $25.00

Reviewed by Terry Stoops



Henry Edmondson describes his book *John Dewey and the Decline of American Education* as "a simple exegesis of Dewey's writing, with commentary suggesting how his thought finds expression in contemporary American education." He reminds us that ideas have consequences, and Dewey's ideas have had disastrous consequences for American education over the past 50 years.

Anyone who attempts to write about John Dewey's ideas is immediately presented with two problems. The first is selecting works from the vast corpus of writing by and about Dewey. *The Collected Works of John Dewey* covers 71 years of Dewey's writing in a mere 37 volumes, while the Library of Congress lists 375 books written about Dewey alone. Edmondson, who teaches political science at Georgia College and State University, focuses on four of Dewey's major works, *Democracy and Education*, *Human Nature and Conduct: An Introduction to Social Psychology*, *Schools of Tomorrow*, and *Experience and Education*. He also draws from a number of Dewey's other major works in educational philosophy, political and social philosophy, and ethics, as well as a wide range of secondary source material. Overall, Edmondson's coverage of Dewey's thought is excellent.

The second problem is Dewey's awful prose and ambiguous ideas. Even William James and Oliver Wendell Holmes, both admiring colleagues in the famed Metaphysical Club, recognized that Dewey's writing was often vague and confusing. Although Edmondson agrees that Dewey was an abysmal communicator, he argues that readers can overcome Dewey's lack of clarity by recognizing that he "subordinates his philosophy to his [progressive] politics." Using that approach, Edmonson is able to provide a succinct overview of Dewey's ideas without being weighed down by his writing.

Throughout the book, Edmonson highlights Dewey's disdain for religion, tradition, and inherited values. Dewey claimed that such beliefs are at least signs of unintelligent thinking and, at worst, outright oppression by the wealthy and powerful. Philosophically, Dewey argued that, because human nature is always in flux, fixed values and beliefs are inimical to progress. Consequently, he declared that schools should no longer be a venue for teaching traditional religious and moral values. Instead, Dewey believed that schools should be places where the child's impulse and whim rule—insofar as those impulses and whims are consistent with the values of Progressivism.

Dewey did not, however, contend that schools should be places of uninhibited activity, as many unfamiliar with his work believe. Edmondson points out that Dewey was a man blinded by his desire to see schools as the means to implement a comprehensive program of progressive social change. As a "microcosm of social life," the school provided Dewey a convenient place to socialize students into adherents of progressive ideals, that is, collectivism and statism.

Dewey also rejected religion and traditional values in favor of encouraging perpetual experimentation via the scientific method. Edmondson sees this as a streak of nihilism in Dewey's thought, which might be the most worrisome consequence of adopting pedagogy based on his ideas. One needs to look no further than the legion of constructivist-based programs, such as "I Like Me" and "values clarification," to identify the kind of destructive influence Dewey's ideas have had on schooling in the United States.

Within the classroom Dewey insisted that teachers should not impose abstract aims or external standards on their students. Instead, he endorsed learning through play and hands-on activities, and defended an ad hoc curriculum that favored neither vocational nor academic subjects. Dewey maintained that socialization was just as important as teaching essential skills like reading. Edmondson concludes that our current confusion over standards and goals is a "natural consequence of Dewey's insistence on such fluid educational standards."

Edmondson includes chapters on the educational thought of Thomas Jefferson and Benjamin Franklin. What might appear to be an unusual detour is actually a very instructive discussion of alternatives to Dewey. At times, Dewey insisted that he was heir apparent to Jefferson, but Edmondson shows that Dewey departed from both Jefferson and Franklin by repudiating those Founders' shared belief that a vibrant republic requires an education designed to cultivate personal virtue. Dewey's radicalism is nowhere more apparent than in his rejection of the Founders' educational ideals.

Finally, Edmondson offers a number of ways that we can renounce our Deweyite inheritance. They fall into two broad categories: philosophical coherence and excellence in teaching. Philosophical coherence includes implementing reforms that restore clarity, traditional values, and the liberal arts to our schools. Edmondson also calls for the abolition of the middle-school, schools of education, and student-learning outcomes, all of which impede genuine educational innovation. He also wants to encourage excellence in teaching by maximizing teacher autonomy and improving teacher preparation.

Those aren't bad ideas, but what we really need is the one reform that cuts the Gordian Knot—separation of school and state. Dewey's philosophy would probably never have taken root and wouldn't last long in an environment where parents made their own choices and spent their own money for education.

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