

**Controversy:**

**Do Market Economies Allocate Resources Optimally?  
A Response to Dwight D. Murphey**

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**Introduction**

The Dwight D. Murphey I have known for years has been a combination of classical liberal and conservative, who made significant intellectual contributions to these philosophies. As a free-market advocate, he would never have countenanced “non-market distribution of property ... to everyone in a given society, whether they have done anything to ‘earn’ them or not.” He would not have placed quotation marks around the word “earn,” signifying that people do not really earn things, or, if they do, it is not important. He would have dismissed any such proposal as socialism or welfarism. However, the Dwight D. Murphey who has written “Controversy: Do Market Economies Allocate Resources Optimally? A Response to Walter Block,” not only allows this sort of material to slip by him but actually endorses it. He states explicitly: “Being non-market, and involving in part compulsion through taxation, we can easily identify it, by itself, as a Socialist means. What I am saying is that it will be a necessary means....”

**Luddite?**

I characterize my debating partner in this controversy as a Luddite Socialist.<sup>1</sup> He admits to the latter, but what of the former? Luddites, named after Ned Lud, a man who burned knitting looms in England during the Industrial Revolution, hated and feared the new machinery. He did so for the most benevolent of reasons: He thought it would lead to vast unemployment and hence, human misery. He reasoned that if one man with a machine could do the work of one hundred, then ninety nine would be consigned to a life of forced idleness and penury. He ignored the fact that new jobs would be created in the manufacture

and care for this machinery; and that, even if the new implements came into being magically, without human effort, thus not necessitating any additional labor, still, we would not suffer mass joblessness, for the new technology would merely free workers to accomplish new tasks that could not have been attained under previous conditions.

Murphey agrees fully with Lud's assessment of the employment effects of new technology: It makes human beings redundant. They proceed from this basic premise, I concede, in different directions. One advocates the violation of economic freedom and property rights; the other actually did so. Lud destroyed knitting looms; Murphey argues, in effect, for stealing money from the wealthy and giving it to the poor. Yes, the specific violation of market principles differs between the two of them, but this is a relatively superficial distinction. At bottom, they both oppose the market's allocation of resources because of a mistaken analysis of unemployment. Suppose I subscribed to this explanation but, instead of physically demolishing technology, I passed a law against it; or taxed it heavily; or executed engineers; or, voodoo-like, stuck pins in effigies of machinery. Would I escape the charge of Ludditism, as Murphey seeks to do, by making much of the difference between destroying machinery and advocating his compulsory Kelso-ish proposals? No. I would be as much of a Luddite as they are; the only divergence is that I would have a slightly different solution to the problem than either of them.

Perhaps the best antidote to Ludditism has been provided by Henry Hazlitt in his critique of Eleanor Roosevelt, the Hillary Clinton of her day. Hazlitt quotes the former First Lady as follows: "Mrs. Eleanor Roosevelt ... in a syndicated newspaper column of September 19, 1945, wrote: 'We have reached a point today where labor-saving devices are good only when they do not throw the worker out of his job.'"<sup>2</sup> His reply is devastating: "If it were indeed true that the introduction of labor-saving machinery is a cause of constantly mounting unemployment and misery, the logical conclusions to be drawn would be revolutionary, not only in the technical field but for our whole concept of civilization. Not only should we have to regard all further technical progress as a calamity; we should have to regard all past technical progress with equal horror."<sup>3</sup>

To be fair to Murphey, he does not exactly look upon "fast-approaching, non-labor intensive technology" with horror. Rather, he "see[s] the new technologies as offering incredible hope."<sup>4</sup> But this is only if his scheme for a "non-market distribution of property" is implemented. If not, it is fair to say that Professor Murphey *would* see this as a calamity. He hardly welcomes the prospect of the Internet "cutting out stock brokers, real estate agents, retail clerks,

wholesalers, college professors, and countless others." There is some real fear and trepidation at work here. He maintains "all that Block has to answer it with is an article of faith" based on past experience. But if it worked in the past, for our entire history so far, there must have been a *reason* for this success; it could hardly have been a complete coincidence. After all, the devastation by computers of middlemen through disintermediation (e.g., less vertical integration of industry) is nothing compared to the havoc wrought on the horse-and-buggy industry by the automobile, or the economic suffering and subsequent diminution of United States farmers, or the fate of mom-and-pop grocers at the hands of supermarkets, or the utter evisceration of village downtown shopping areas by the mega-malls.

And what is this reason? It is, if we "grant the unlimited nature of wants,"<sup>5</sup> that every time a computer geek replaces a stock broker or real estate agent, this *frees up* one of the latter to produce things for us that we would not have been able to produce apart from this process. Now, granted, any one, particular broker may not be able to move us significantly further down our "wish list." Retraining does come at a cost. But when the next generation of workers comes on the scene, with the lessened<sup>6</sup> need for retail clerks, wholesalers, and college professors, at least some of those who would have gone into these fields under the old technology will now be able to make contributions to new endeavors. Forget about the fact that if there is a reduced need for middlemen, there is more demand for computer nerds. Indeed, the competition for such employees on the part of Microsoft, IBM, and so forth, is often fierce. High school drop-out hackers command gigantic salaries and perks. More basically, the reason Luddites (of whatever stripe) need not fear labor-saving innovation is because of this unseen and never-ending source of employment: unmet desires. There will *always* be job possibilities for everyone as long as people want more of *something* than they have, even though we cannot pinpoint precisely the exact nature of the future employment. Hazlitt said of such people in a related context: "They see only what is immediately visible to the eye."<sup>7</sup> This is not a matter of faith. It is a matter of logic. It is no less than a logical contradiction to assert, as Murphey does, that wants are limitless and, given that there are no other (e.g., governmental) impediments, vast unemployment will continue to exist due to increasing technological improvement. It does not matter how "fast-approaching" the rate of innovation is. As long as people have less wealth than they want, are willing to work, and are not prohibited from doing so, there will be jobs for them.

Why, then, is there unemployment? It is due entirely to governmental interferences with the economy. There are minimum wage laws, pro-union

legislation, monetary and fiscal policy, business regulations, unemployment insurance, welfare, and the list goes on and on.<sup>8</sup> Paradoxically, Murphey's program—it is a statist intervention—is born out of fear of unemployment, and yet leads to the very same result.

Professor Murphey seems to have bought into the mantra: "You can't get tomorrow's jobs with yesterday's skills." True enough, if minimum wage laws exist. But you *would have been able* to get a job presently with only the ability to push a broom or handle a pick and shovel if there were no laws compelling the employer to pay you a salary commensurate with the skills necessary to run a computer. If physical power is all you have to offer the market, and its productivity level is three dollars per hour, there should be no mystery regarding why you cannot land a job at the rate of five dollars per hour, given the minimum wage barrier. It is simple: Any firm foolish enough to hire you will lose two dollars per hour. Despite his fears to the contrary, my intellectual opponent offers no reason to believe that such a law will be repealed in the future.

### Holism

Despite my previous criticism, Professor Murphey reiterates his accusation that Ludwig von Mises is guilty of violating his own strictures against holism. On this ground he objects to Mises's statement: "With every penny spent the consumers determine the direction of all production processes."<sup>9</sup> But what is holism? Let us hear from the master of Austrian economics on this question:

... society is an entity living its own life, independent of and separate from the lives of the various individuals, acting on its own behalf and aiming at its own ends, which are different from the ends sought by the individuals. Then, of course, an antagonism between the aims of society and those of its members can emerge. In order to safeguard the flowering and further development of society it becomes necessary to master the selfishness of the individuals and to compel them to sacrifice their egoistic designs to the benefit of society.<sup>10</sup>

If not the consumers, then who else directs the allocation of resources in a free society? If my debating partner is correct in his criticism of Mises, the latter must posit a "consumer" divorced from individual consumers, who acts differently from them. Murphey offers no reasons for subscribing to this notion. It is clear from any neutral reading of Mises, not to mention a sympathetic one, that he had in mind only ordinary individual consumers, not some sort of super "societal" consumer divorced from them. All consumers, that is, as individuals, precisely through their purchasing decisions, determine the success or failure of any given product. Take the Edsel for example. Launched by the Ford Motor Company amid great fanfare, this car was greeted by the

marketplace like a lead balloon. But it was *individuals*, not any kind of “social consumer,” who were responsible for this marketing failure. For Murphey’s interpretation to be correct, the very opposite would need to be true.

I did not grasp the importance of Murphey’s point in my previous article, and I still do not. I remain convinced that despite his protestations of “affection and respect” for Mises, this was indeed a “gratuitous slap” at him. I certainly agree with Murphey that “a need to agree on every aspect of [a scholar’s] thinking ... is the worst form of homage that can be shown to a serious thinker.” But I cannot concur in his assessment that my agreement with Mises stems from this source. I agree with Mises, not Murphey, on this point because the latter has clearly misinterpreted or misunderstood the former.<sup>11</sup>

Moreover, if anyone is guilty of violating the strictures of holism, it is Murphey and not Mises. You will not catch Mises criticizing anyone for not “see[ing] society as a whole....” In fact, I do not accuse my debating partner of this error. I state only that a non-sympathetic interpretation, of the sort Murphey uses on Mises, would lead to this conclusion.

### Other Conceptual Issues

My purpose in this section is to respond consecutively to each of the points raised by Professor Murphey in his rebuttal.

To begin with, I am not sure whether the freedom philosophy he mentions is a “closed theoretical system.” A libertarian understanding of freedom claims that man and his property are not to be invaded, or interfered with, except in response to, or defense against, a prior violation of rights. It is not at all clear why the “whole classical liberal enterprise,” so defined, is on “a course to self-destruction.” On the contrary, it appears to be increasing in popularity because its main competitor—government intervention—has suffered a fatal blow by the fall of the Berlin Wall and the breakup up of the Soviet Empire.

Second, an act is Pareto efficient if at least one person gains and no one loses. In a zero-sum game, the gains of the winners are exactly offset by the losses suffered by the losers. I agree wholeheartedly with Murphey that the market is neither a zero-sum game, nor Pareto inefficient.

Now, with respect to Murphey’s third point, he seems to be conceding that new technology will not, in fact, create unemployment. Instead, he argues it will drive wages down toward zero. This, however, is but another version of Ludditism.

Sometimes, in order to see things more clearly, it is necessary to exaggerate an issue.<sup>12</sup> So, let me consider a horror scenario for Luddites: a super-duper Alladin’s lamp; you rub it slightly, and it grants not three wishes, but as many as

you want. This is an “innovation” that would far surpass any of Murphey’s previous fears. Two scenarios immediately present themselves. First, I give them away to all my friends,<sup>13</sup> and they, in turn, generous souls, give them to theirs, and, eventually, everyone in the world has one. Even someone as suspicious of “fast-approaching, non-labor intensive technology” as my debating partner would welcome such an eventuality. Nor would his advocacy of the free-enterprise system even be tested, let alone waver. For there would be no need of any coercive governmental redistribution of income; we would have arrived in a post-scarcity era.<sup>14</sup> But now, suppose I limit the distribution of my lamp to those currently living north of the equator. A further two scenarios immediately present themselves, neither of which will give much comfort to Murphey. For one thing, we could cut off all economic relations between the two hemispheres of the globe. Here, it is difficult to see why those in the Southern Hemisphere would be made any worse off than they were previously. They would still have to, and be able to, produce goods and services for each other. Second, trade could occur between the genie-owning northerners and the genie-deprived southerners. The obvious economic implication of this scenario is that the price of goods would fall to zero, and people, even in the Southern Hemisphere, could have them at no cost.

Fourth, I did not say that “the productivity of a market economy will raise all boats.” This is indeed as good a rough generalization as any, but surely a Hitler or a Stalin is better off for having vast powers over the rest of us, such that their boats would be *lowered* should full freedom ever reign.<sup>15</sup> Yes, under the assumption of the non-shared, super-duper Alladin’s lamp, “literally billions of people will be left to compete to perform the few things that remain labor intensive,” e.g., all of those in the Southern Hemisphere, in our example. But, as we have seen, their economic prognostication is either no improvement (no trade) or improvement (with trade).

It is at this point that Murphey runs off the rails not from an economic perspective, but, rather, more surprisingly, from that of politics by conflating aristocracy, hierarchy, class, vast income inequality, and freedom. My debating partner is indeed correct that aristocracy is incompatible with the free society. When nobles or higher castes are allowed certain legal privileges denied to commoners or lower castes, it cannot be denied that liberty is curtailed. But this is the system Murphey advocates; remember, he is on record as supporting “as ... necessary ... the non-market ... compulsion through taxation ... a Socialist means” of taking wealth from those who own the new innovations and giving it to those who have been left out of the computer revolution, “whether they have done anything to ‘earn’ them or not.” This proposal, however, leads

to the creation of two very different groups: aristocrats who are given money they did not earn, and commoners who are forced to relinquish their hard-earned property to aristocratic leeches.

In contrast, wealth disparities, no matter how “vast,” are not incompatible with liberty. Bill Gates, Robert Redford, Michael Jordan, Mike Tyson, and Michael Milken are all very rich, but this does not call into question the economic freedom of anyone else. Indeed, they are all wealthy, directly or indirectly, because of the *exercise* of our ability to choose, as consumers. According to a Beatle’s ditty, which Murphey implicitly supports, we should all yearn to be “classless and free.” Nothing could be further from the truth. The class of rich people who have earned their money honestly should not be confused with the class of those who have stolen theirs.<sup>16</sup> In any case, as mentioned in my previous rebuttal, the “vastness” of income disparities under capitalism are nothing compared to those under socialism. Yes, there are market billionaires, but they attained this situation by *enriching* the poor. By contrast, however, in unfree societies, the wealth of the rich comes at the *expense* of the poor.

When the automobile was first introduced, who in the horse-and-buggy industry suffered the least? The poor who swept out the stables, and could now clean the floors of the factory assembly line at a roughly comparable salary,<sup>17</sup> or the highly skilled blacksmith, ranch owner, or tanning firm? It was the latter, with more of a stake in the industry, who were not so fortunate. Murphey’s concern that the poor will suffer from innovations is thus misplaced. The “squalid urban slums” of Brazil are indeed a disgrace, but this sad situation arises *not* because of any inequality emanating from the market. It is a typical leftist tactic to blame free enterprise for situations created by government intervention.

Henry George was a magnificent libertarian on all issues *except* the one for which he is most famous: land communism. Yet this is precisely the arena in which Murphey relies upon him. But he makes two mistakes in so doing. First, the free-enterprise ethic by no means maintains that “inequality [*only*] borne out of differences in ability, effort, character, market discernment ... is a morally justifiable inequality.” This is true as far as it goes, but it does not go far enough. As Nozick has demonstrated, *any* non-invasive transfer of income can suffice.<sup>18</sup> In addition to the characteristics mentioned by Murphey, there is also gambling, inheritance, and luck, just to mention a few. That is, these forms of income are legitimate sources of income disparity. The *only* thing prohibited is force or the threat of force, which is precisely the element advocated by Murphey in his claim regarding “the non-market ... compulsion through taxation ... a Socialist means.” The point is, even though all of the earnings of “the

computer expert in 2030” need not result from “his own effort,” he is still entitled to reap the benefits from them. *All* of us, whether in 2030, 1830, or any other year, stand on the shoulders of those who came before us. Why does this justify the state in seizing our income, and giving it to others they deem more worthy? Bureaucrats and politicians, too, benefit from things other than “their own effort.” We all gain from the civilization that these people are working to tear down. This no more justifies their stealing our money than our doing the same to them.

The second error is that, even given Murphey’s narrow defense of income distributions, George was incorrect in asserting that landowner wealth accrues without making any positive contribution. Among other things, landowners are charged with picking tenants and determining the extent and rate of land development; they decide whether their land shall be farmed or lie fallow. Like all other businessmen, if they do these things well, they, and the rest of us too, prosper. If they do not, then we do not.<sup>19</sup>

Fifth, it gives me no pleasure to find my friend Dwight “flirting with socialism.” My concern is that he is doing more than merely “flirting.” But I must respect him for not sailing under false colors, as he correctly points out was true of Kelso in the *Freeman*. Although I may criticize Murphey, I do not castigate him for urging socialism as a way of advancing capitalism; unlike Kelso, he acknowledges what he is doing. This being the case, however, I fear he is no longer entitled to describe himself with the following labels: “classical liberal,” “those of us on the right,” and “free society.”

Sixth, I do indeed see “catastrophe in the less-developed economies,” which will continue until and unless they change their ways and embrace the doctrine of economic freedom. If they do, they will undoubtedly experience more innovations both of their own devising and imported from the more economically developed West, which, in my view, can only benefit them.

Finally, I agree with Murphey that Jeremy Rifkin is “provocative,” but the term *insightful* is entirely inappropriate. I doubt that Rifkin ever took a course in economics featuring a Mises, a Rothbard, or a Hazlitt, or is in any other way familiar with their writings.

## Conclusion

When the editors of *Markets and Morality* first asked me to participate in this debate, I was ambivalent. I did not want to attack what I regarded as economic illiteracy written by a friend. Instead of declining outright, I set up all sorts of roadblocks, conditions, and impediments. They persuaded me to “trust them,” and I am glad I did. The writing of this paper certainly helped me to



organize my own thoughts better, and may conceivably be of some help in shedding economic light on a personally vexing problem for many. For this I thank the editors. For putting matters clearly and honestly, for keeping his “intellectual cool,” and thereby helping me do the same in what might otherwise have become an emotionally adversarial battle, I thank Dwight.

## Notes

1. This is not mere name-calling. To the contrary, it is part and parcel of the scientific effort to label and categorize. When biologists distinguish between the various flora and fauna, genus and species, they not only organize what would otherwise be an overwhelming complexity but also attain new insights regarding how the various species interrelate. So it is in the realm of political economy.

2. Henry Hazlitt, *Economics in One Lesson* (New York: Crown, 1979), 54.

3. *Ibid.*

4. He says this but he advocates a system, a mixed economy welfare state, which is not as conducive to technological breakthroughs as is the free-enterprise system.

5. We have already dealt with the case of unlimited wants earlier in our example of Ghandi.

6. For argument's sake, since Murphey gives no evidence for these claims.

7. Hazlitt, *Economics in One Lesson*, 24. Just so that I am not accused of being a laissez-faire ideologue (e.g., principled), I hereby make the following concession; when and if I seize power, rather than allowing for a full free market and complete liberty, I will compel all people to read the entire book *Economics in One Lesson*. Furthermore, I will force them, at the point of a gun, to memorize chapters one and two, “The Lesson” and “The Broken Window.”

8. See Hazlitt, *Economics in One Lesson*; R. J. Ritchie, Walter Block, and Robert W. McGee, “The Minimum Wage: Misguided Altruism,” in *Commentaries on Law and Economics*, forthcoming; Walter Block, “Labor Relations, Unions and Collective Bargaining: A Political Economic Analysis,” *Journal of Social, Political, and Economic Studies* 16, 4 (Winter 1991): 477–507; “Labor Market Disputes: A Comment on Albert Rees’ ‘Fairness in Wage Distribution,’” *Journal of Interdisciplinary Economics* 7, 3 (1996): 217–30; Lowell Gallaway and Richard K. Vedder, “Wages, Prices and Employment: Von Mises and the Progressives,” *The Review of Austrian Economics* 1 (1987): 33–80; Gary Becker, “It’s Simple: Hike the Minimum Wage, and You Put People Out of Work,” *Business Week Magazine*, March 6, 1995; Daniel C. Heldman, *American Labor Unions: Political Values and Financial Structure* (Washington, DC: Council on American Affairs, 1977); Daniel C. Heldman, James T. Bennett, and Manuel Johnson, *Deregulating Labor Relations* (Dallas, Tex.: Fisher Institute, 1981); W. H. Hutt, “Trade Unions: The Private Use of Coercive Power,” *The Review of Austrian Economics* III (1989): 109–20; Morgan O. Reynolds, *Power and Privilege: Labor Unions in America* (New York: Manhattan Institute for Policy Research, 1984); and *Making America Poorer: The Cost of Labor Law* (Washington, DC: Cato Institute, 1987).

9. Ludwig von Mises, *Human Action* (Chicago: Regnery, 1949), 270.

10. *Ibid.*, 145.

11. As it happens, I am on record as disagreeing with Mises but on a different point. I took issue with his view of monopoly in “Austrian Monopoly Theory—A Critique,” *The Journal of Libertarian Studies: An Interdisciplinary Review* I, 4 (Fall 1977): 271–79. But this is entirely accidental. Even had I never criticized Mises, it is somewhat unseemly to charge, without supporting evidence, that I take his side over against Murphey’s because of a “need to agree.”

12. This is why physical scientists use magnifying glasses, telescopes, microscopes, and so forth.

13. Surely the genie can create additional lamps.

14. Well, not quite. There are some things the genie could not do, even assuming no square circles were permitted. For example, suppose many men wanted to marry Marilyn Monroe, but there is only

one of her to go around. Even if the genie can somehow transcend this minor difficulty and create billions of real Marilyn Monroes (I am agnostic on this possibility), still *she* (or *they*) might not be all that interested in marrying all of her (their) would-be suitors, and her (their) rights would also have to be respected in a free society. Another example: the genie could not make a rock so big you could not carry it, or allow you to be in two different places at the same time, which are both versions of the square circle dilemma.

15. For the erroneous view that the market raises *all* boats, compared to the mixed economy (e.g., that government intervention is harmful, not merely that it cannot be proved helpful), see Bryan Caplan, "The Austrian Search for Realistic Foundations," *Southern Economic Journal* 65, 4 (April 1999): 823–38. For a critique, see my forthcoming article in the *Quarterly Journal of Austrian Economics* titled "Austrian Foundations: Reply to Caplan." See Guido Hulsmann, "Realism in Economics—Reply to Caplan," also forthcoming in the *Quarterly Journal of Austrian Economics*.

16. The wealth of the Beatles themselves, despite their lyrics, is market derived.

17. A higher *real* salary, given that cars are more efficient than horses.

18. Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974).

19. For a refutation of George, see Murray N. Rothbard, *The Single Tax: Economic and Moral Implications* (Irvington-on-Hudson, N.Y.: Foundation for Economic Education, 1957) and *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1977).