

NOTHING FAILS LIKE THE SUCCESS OF PRIVATE ENTERPRISE AND FREEDOM

The current obesity “crisis” represents a significant triumph for private enterprise and freedom. For the first time in human history, people in most of the world are more worried about the risks of gaining weight than about the risks of starving. But this triumph is being discussed as a crisis which demands government to take action, and that action invariably involves more government restrictions over private enterprise and our freedoms. Unfortunately, the obesity “crisis” is but one of many examples of the successes of our economic system—a system based primarily on private property and voluntary exchange—being treated as failures. Such “failures” are then used to justify government actions that reduce both our prosperity and our freedom.

This is not to suggest that obesity and other concerns that arise in market economies are never problems, but when they are, they are the problems of increasing prosperity that inevitably result from overcoming the far worse problems of poverty. Without recognizing this, we face the risk of solving the former problems by reducing our ability to solve the latter. I first consider the obesity “crisis” in some detail and then discuss other examples of the successes of private enterprise and freedom being presented as failures.

OVERCOMING STARVATION BECOMES A PROBLEM

Until well into the twentieth century, being overweight was a sign of affluence and good health. Starvation may have never been a serious concern in the United States, but until the recent move toward private markets in China and India lifted hundreds of millions out of wretched poverty, starvation was a genuine threat for much of Asia’s population. And the threat of starvation in the poorest countries of the world, though often serious, is less than it would be without the transfers of food to these countries from those societies that rely primarily on private enterprise.

Even in the United States, getting sufficient calories, not to mention a balanced diet, was a struggle over much of our history. This struggle is reflected in the research of Robert Fogel and his associates, who have examined the height, weight, and longevity of surviving Union soldiers from the Civil War. Young American men in the early 1860s were shorter, lighter, had more illnesses, and lived much shorter lives than

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their counterparts in the Baby Boom generation. Poor nutrition, particularly during infancy and childhood, is seen as a contributing factor. As late as the twentieth century, a beached whale would have attracted a crowd on American shores, but a crowd with long knives more anxious to get more fat in their diets (a real problem for many) than with getting the whale back into its natural habitat. Long hours of hard physical work, both outside and inside the home, ensured that few of the working class were overweight. As late as the 1940s, the claim that the poor would soon be more likely to be overweight than the rich would have been considered preposterous. Yet this is exactly what has happened.

Ironically, one reason for the problem of obesity is that most agricultural jobs have been eliminated in response to market incentives. Private-sector entrepreneurs and firms have found profit in developing ways to grow more food at less cost by substituting capital and chemicals for farm labor. The result is more food grown on less land by fewer workers. Tens of millions of agricultural workers have been released to innovate new products, improve old products, and expand the production of both in jobs that are far more interesting, safe, and productive than the ones they replaced. Increasing agricultural productivity, along with the general increase in wealth, clearly allowed people to purchase more calories in fresher, more nutritious, and tastier foods for steadily decreasing amounts of labor.

Possibly even more important than the declining cost of purchasing food has been the declining cost of converting it into tasty meals. Preparing foods for

consumption used to be a laborious and time-consuming chore, one performed primarily by women. As market incentives generated technological advances and more productive employment opportunities for women, businesses found it increasingly attractive to introduce products and services that reduced the time and drudgery of preparing meals in the home, as well as doing household chores in general. Shopping for food became more convenient as grocery stores became bigger with larger varieties of food, as well as many other household products, under one roof. Appliances for storing and cooking foods became bigger, less troublesome (self-defrosting refrigerators), and faster (microwave ovens). A larger variety of prepared foods are now available for home consumption. And eating out, which used to be a luxury, is now a common occurrence with options available for every taste and budget.

Given that people evolved to avoid starvation, not obesity, it is difficult for many of us to avoid gaining weight when surrounded by an abundance of convenient, low-cost, and tasty food. Our natural response when food is available is to store as many calories in our fat cells as possible to sustain us until the next successful hunt. Of course, the next successful “hunt” almost always occurs



The failure of success

three times a day, not to mention those trips to a vending machine. Couple this with the sedentary jobs that economic progress has allowed us to substitute for physically demanding ones, and it is hardly surprising that a large percentage of the population has become overweight or obese.

Until quite recently, being significantly overweight was considered a personal problem, if a problem at all. An overweight adult was assumed competent to evaluate the personal costs and benefits of eating more than was consistent with his recommended weight, and he could alter (or not alter) caloric intake accordingly. I remember a talk in the 1970s at the University of Colorado by Israel Kirzner in which he pointed out that the market is often criticized for giving people what they want. Kirzner defended the market against this criticism by saying it is analogous to blaming the waiter for obesity. I was impressed at the time with how effective this argument was. I fear it would be less effective today.

Increasingly it is not those who are overweight who are seen as responsible for their condition. They are more likely to be considered the victims of “waiters” in the form of those who are responding to consumer demand by making more and tastier food conveniently available at ever-lower real prices. Instead of seeing this as a significant victory in the battle against poverty and hunger, we hear from trial lawyers, health officials, and other politically influential activists that it is a national crisis requiring immediate government action.

Surely, the word “crisis” has been devalued to the point where it is now used to describe almost any situation involving an inconvenient tradeoff. But it remains effective as a first step in mobilizing the coercive powers of government to avert the “disastrous” consequences of letting people make their own decisions on what had

previously been personal matters. Proposals for taxing fast foods are being seriously considered in the name of protecting people against the dangers of eating too many hamburgers and fries. Lawsuits have been brought against McDonald’s for damage resulting from the obesity for which it is allegedly responsible. Members of the Los Angeles City Council have proposed preventing new fast food restaurants from opening in South Central L.A. to reduce the consumption there of “unhealthy” food. It is tempting to dismiss such efforts as too intrusive and, indeed, silly to become serious political threats. But given the increased government influence over and intrusions into what once would have been private decisions on such matters as health care, education, hiring and firing, compensating employees, smoking in a local bar, use of seat belts, and the type of television signal to receive, who can be confident that what is considered ridiculous today will not be taken as a serious reason for further government controls over our lives tomorrow?

The success of market incentives and freedom in effectively eliminating the threat of starvation has, in the minds of the public, been converted into a failure that is being used to justify further undermining the power of markets and freedom to continue replacing the problems of poverty with the problems of prosperity.

MORE SUCCESSES TURNED INTO FAILURES

Medical Care

Unfortunately, the obesity “crisis” is only one of many examples of the success of markets and freedom being widely, and effectively, portrayed as failures demanding more government controls over our economic choices. Consider the innovations in medical care that have extended

our lives and improved their quality into the older ages we are now more likely to achieve. This is clearly a triumph of the innovation and entrepreneurship made possible by the incentives and freedom of market economies—an improvement in our well-being over the last century that is unprecedented in human history and which holds out the promise of continued improvement. But the public hears much more about problems resulting from this triumph than about its enormous benefits. The constant refrain is that the high cost of medical care is a failure of markets which has become a serious problem—indeed, another national crisis—demanding a government remedy.

In fact, the cost of medical care is greatly overstated. Instead of increasing the cost of medical care, improvements in medical technologies have actually reduced that cost and reduced it considerably. In the 1960s the cost of heart-bypass surgery needed to save your life was infinite—unavailable at any price. The same is true of many other procedures, medicines, and diagnostic equipment that improve and prolong the lives of untold millions today, including the poor. People are confusing the increasing amount being spent on medical care with the costs of that care when claiming that medical costs are higher today than ever. People are spending more on medical care because the success of markets and freedom has increased their wealth and made medical care worth more than ever. No sensible person would argue that transportation costs are higher now than ever even though we spend a far higher percentage of our income on transportation than in the past. The reason we are spending more is that transportation costs have decreased so much over the last century that today almost everyone in market-based economies can routinely af-

ford travel options that were available to only the very rich a few decades ago, and available to no one a little over a hundred years ago, with all those options safer, faster, and more reliable than ever before.

Unfortunately, the claims that medical costs have increased have convinced most voters that markets not only have failed to provide adequate medical care, but that they are incapable of doing so. It is these claims that justify government policies that are causing medical spending and costs to be greater than necessary by distorting markets and restricting freedom. As a result of government programs such as Medicare and Medicaid, and tax incentives that favor employer-sponsored health insurance with high deductibles and low copayments, the amount of medical care that people pay for *directly* in the United States has declined significantly. It averaged only 13.2 percent in 2004, lower than in all but four of the thirty OECD countries.¹

Most payments for medical care are now third-party payments, which provide little incentive for those receiving the care to give much thought to its cost. Each individual knows that economizing on his care will do effectively nothing to reduce his insurance premiums or taxes. The first result is that medical expenditures are greater, medical costs are higher, and medical providers are less responsive to patients than if patients were paying more of the costs directly. The second result is that medical expenditure and costs are increasingly being limited by remote authorities with increasing controls over medical decisions that used to be made by patients and their doctors informed by local knowledge and subject to market incentives. The final result is that the quality of medical care is less and the costs higher (including the costs of supporting large bureaucracies and complying with their often inconvenient and

time-consuming requirements) than they would be with a greater reliance on market discipline. Of course, as government policies have reduced the ability of markets to provide better medical care at lower real costs, the political response has been to dismiss markets as having failed and then claim more government control is required to ensure “better care at lower costs.”

Manufacturing

Manufacturing is another huge success of America’s market economy. As millions of workers left the farm from the late nineteenth century through the first half of the twentieth, they found more productive and higher-paying jobs in manufacturing. This employment provided the opportunity for men and women, but mostly men, with limited education to enter into and expand the middle class. Technologies steadily improved, increasing labor productivity and real wages, while also improving the quality and lowering the real prices of manufactured goods—the improved quality and lower prices occurring despite the import restrictions that provided industries with protection against foreign competition. But over the last four decades of the twentieth century, manufacturing employment began declining as labor productivity improved faster than the demand for manufactured products. As a result, the quantity and value of American manufactured goods continued to increase while the workers released from manufacturing jobs moved into other jobs where their value added was greater than in manufacturing. The new jobs also expanded employment opportunities for women by requiring more creativity and dexterity and less physical strength than the manufacturing jobs they replaced.

It should be obvious that manufacturing is a story of how the information and incentives to direct resources and workers

into their most productive employments are successfully communicated through market prices. The so-called decline in manufacturing that we hear about is not an economic decline at all. From 1940 to 2000 the index of output of U.S. manufacturing increased by a factor of eleven. The only decline in manufacturing is in the labor costs of producing manufacturing goods, with employment in manufacturing declining from 32 percent of the U.S. labor force in the early 1940s to a little less than 13 percent in 2000.² The result has been an ever-larger percentage of the labor force devoting themselves to the production of nonmanufactured goods and services in safer and more pleasant jobs with no reduction (indeed, an increase) in manufactured goods. This means a general increase in real wages—that is, an increase in the value of what the average worker can purchase with his or her paycheck.

Alas, one never seems to hear from the news media or politicians about the success of markets at improving our economic well-being by increasing manufacturing productivity. Rather, news stories and political pronouncements on manufacturing are far more likely to report on the “hollowing-out” of the American economy as the decline in manufacturing and its high-paying jobs are shrinking the size of the middle class. The public is being convinced that another success of markets and freedom is really another failure requiring government to distort market incentives and reduce freedom with an ad hoc set of politically inspired interventions, including subsidies, trade restrictions, tax breaks, and tax penalties.

Specialization, Coordination, and Wealth

The success of market economies at producing wealth is the direct result of the de-

gree of specialization (or “division of labor” in the terminology of Adam Smith in *The Wealth of Nations*) that market coordination makes possible. By specializing their productive efforts in particular activities, people are able to produce far more value than if they attempted to produce most of the things they wanted to consume themselves. Such specialization is productive only to the degree that people can coordinate their production and consumption decisions in mutually beneficial ways, and markets excel at this coordination. The greater the reliance on the rules of private property and voluntary exchange, the more specialized and productive people become as each individual has more assurance that his efforts to produce what others value most will be reciprocated by others producing what he values most.

While the gain in prosperity from specialization is truly enormous, it comes at a cost—as do all gains. Specialization necessarily means that people are dependent upon one another, and the greater the gains from specialization, the more dependent we are on larger numbers of more widely dispersed people. Being dependent on such a wide network of people for almost everything we consume can cause real problems if the coordination normally orchestrated so well by market prices begins to break down, even a little, which it occasionally does. This happens most commonly when, because of excessively easy credit, people are tempted into making investments at prices that are not sustainable. The recent housing bubble is an example of this phenomenon. When the euphoria that drives such bubbles is replaced by more realistic assessments of the value of the overpriced assets, which inevitably happens, the process of returning to prices that reflect economic realities is a painful one, as losses are suffered and

investor confidence is temporarily shaken. The result is increased unemployment and a reduction in the growth, and often the level, of output. But this pain is unavoidable if the price adjustments necessary to restore the economic coordination required for continued growth in prosperity is to occur.

The prosperity from market specialization far exceeds the occasional losses from temporary and partial breakdowns in the coordination that makes it possible. But when those losses occur, there is a strong tendency for people to ignore the market success reflected in the tremendous prosperity made possible by specialization and interdependence and see the much smaller losses as the failure of markets. Almost any policy that promises to provide short-run relief from the losses will be accepted, even though it hampers the adjustments and undermines the coordination upon which long-run growth in prosperity depends. The financial problems following the bursting of the housing bubble are the most dramatic recent example of the destructive tendency to see failure in what is in fact the success of markets and to respond with policies that erode the source of the success.

Although specialization and coordination make the market subject to temporary recessions, the public is particularly misguided in its tendency to see this as the defining feature of markets during even rather mild economic slowdowns. In fact, it is government policy that is invariably responsible for most of the dislocations that lead to economic slowdowns. In the current situation, the housing bubble was largely caused by a long-lived easy-money policy pursued by the Federal Reserve, along with government policies that encouraged the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan

Mortgage Corporation (Freddie Mac) to make mortgages available to people buying homes they could doubtfully afford. Many of the politicians who aggressively supported such policies are now putting all the blame for the problems caused by housing foreclosures on the failure of markets. The additional government controls over market decisions being justified and implemented by this “failure” pose a grave long-run threat to economic prosperity. Even if some of the new controls seem to work in the short run, almost all of them will create long-run obstacles to economic growth. Politicians will take credit for any short-run success (or appearance of success) from their policies and blame the market for the failures that result.

The successes of the market go unheralded, while the occasional glitches of market coordination (more often than not caused and aggravated by government policies) are portrayed as failures justifying yet more government intervention, with the problems caused by that action also blamed on the market.

Low Prices

Another success of market economies is the steady reduction in the real prices of ever-higher-quality goods and services resulting from the relentless struggle of suppliers for increased market share and profits, by reducing production costs and passing those efficiencies on to consumers in the form of ever-lower prices.³ Consumers obviously like lower prices, and one would think that the market’s success at providing them would be widely appreciated. But this is not quite true. If appreciation is measured by shopping behavior, then it is clear that low prices are appreciated in the marketplace. This appreciation does not always carry over, however, into the realm of public opinion.

For example, Wal-Mart is the most successful retailer in America because of its “everyday low prices,” serving tens of millions of customers every week. But this popularity is not reflected in public opinion polls. A national poll conducted in 2005 by the firm Zogby International found that 56 percent of American adults agreed with the statement “Wal-Mart was bad for America. It may provide low prices, but these prices come with a high moral and economic cost.”⁴ The criticism of Wal-Mart focuses on the claims that it 1) exploits its employees by paying them low wages with meager fringe benefits, and 2) harms communities by bankrupting local businesses and destroying the jobs they provided. These criticisms are part of a long history of successful firms being criticized by those wanting political protection against the wealth-creating discipline of the marketplace.⁵

Like Wal-Mart, many successful companies have paid, and continue to pay, rather low wages because they have found ways to employ low-skill workers more productively *and at higher pay* than other employers. In the case of Wal-Mart, this is reflected in the fact that every time it opens a new store, there are far more job applicants than available jobs. This is good news for workers and consumers, with the former earning higher pay than in their best alternatives and the latter receiving better goods and services at lower prices. Of course, all successful companies put some competitors out of business and destroy the jobs they provided. But this is the market discipline that is constantly redirecting resources, including labor, out of employments where they produce less value and into employments where they produce more. Unfortunately, criticism that successful firms create low-paying jobs and cause bankruptcies and layoffs

resonate with the public because seeing real and imaginary costs associated with market discipline is much easier than understanding how that discipline is essential for increasing prosperity. And public concern over the “high moral and economic cost” of low prices, along with the political influence of organized interests that work to foster and inflame that concern, leads to policies that reduce market discipline and put a drag on economic growth.

In the case of political opposition to successful retailers that lower prices, the effect has been primarily to delay their expansion. But there are more costly examples of politicians and their special-interest clients claiming that the market’s success at lowering prices is a problem requiring a government solution that reduces our freedom and prosperity. Political restrictions are imposed on our freedom to buy low-priced foreign goods because of the belief that free markets in those goods drive down American wages and destroy American jobs. Price-support programs keep agricultural prices artificially high because many are convinced that free markets in agricultural goods would destroy the family farm and threaten a stable food supply. And anti-trust suits are brought against efficient firms that lower prices because it is widely thought that such firms will bankrupt their competition and become monopolies.

PROSPERITY AND ITS DISCONTENTS

People seem to have a difficult time coping with success. This is nowhere more evident than with the success of markets and freedom. Free markets are unparalleled in their long-term success at eliminating problems of poverty by steadily increasing prosperity. But eliminating some problems invariably results in people worrying about others,

with the problems of prosperity (some real and some imaginary) replacing those of poverty. One would think that people would prefer the problems of prosperity to the problems of poverty, and they surely would if given a clear choice between the two. There is a strong tendency, however, for people to pay little attention to why they are blessed with benefits they have grown accustomed to, while being very sensitive to anything seen to threaten their well-being. So people take the prosperity provided by markets largely for granted, while becoming exercised over relatively minor problems upon which the world’s prosperity depends or about which prosperity gives people the luxury to worry.

Taking what we already have for granted, while being sensitive to what are usually small challenges and concerns, no doubt had survival value during most of our history as hunter-gatherers, when we had few possessions and survival depended on being constantly alert to lurking dangers and fleeting opportunities to acquire food. This tendency can be counterproductive, however, when what we take for granted is enormous prosperity and what we are most sensitive to are the relatively minor aggravations and setbacks that make prosperity possible. The market creates the wealth we take for granted by imposing discipline on those failing to use their resources to best serve the interests of others. This discipline takes the form of bankruptcies, layoffs, and investment losses that concentrate our attention and provide the information and motivation to redirect resources into more productive employments.

Unfortunately, few understand the connection between this market discipline and general prosperity, while everyone immediately recognizes that his personal prosperity would be greater if he received protection against that discipline. If only *my* business

is bailed out when facing bankruptcy, *my* job protected against competitors when facing a layoff, and *my* financial losses reimbursed when my investments go bad, then *I* would be better off. Of course, a little more thought would bring the realization that any general attempt by government to protect wealth against market discipline quickly threatens the wealth of all.

It has not been my intention here to argue that nothing should be done to solve real problems of prosperity like obesity, as opposed to imaginary ones like low prices. But clearly the best way to solve the problems created by the existing level of prosperity is to allow the freedom necessary for markets to replace them with other problems, the problems of even-greater prosperity. The concern is that politicians cannot discriminate between the problems that result from increasing prosperity and those necessary for increasing it. When governments cater to interest groups inconvenienced by the successes of markets

by treating those successes as failures, the risk is real that we will solve the existing problems of prosperity by replacing them instead with the far worse problems of poverty.

NOTES

1. This information comes from “United States Healthcare Reform: Do Other Countries Have the Answers?” a paper presented by John Goodman at the Mont Pelerin Society meeting in Tokyo on September 9, 2008.
2. The information on manufacturing output and employment is found at http://www.whitehouse.gov/cea/forbes_nabe_usmanufacturing_3-26-042.pdf (accessed September 23, 2008).
3. Michael Cox and Richard Alm, “Time Well Spent: The Declining Real Cost of Living in America,” *1997 Annual Report*, Federal Reserve Bank of Dallas, 1997: 2-24.
4. <http://blog.wakeupwalmart.com/ufcw/poll-20051201.pdf>
5. Butler Shaffer, *In Restraint of Trade: The Business Campaign Against Competition, 1918–1938* (Lewisburg, PA: Bucknell University Press, 1997).

