

# On Economic Justice

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THERE HAS BEEN a great deal of discussion about economic and social justice. Although the term "economic justice" is widely used in discussing the existing pattern of income distribution, people who use the term have only a vague idea as to its meaning. After a decade of study, F. A. Hayek, recent Nobel Laureate in economics, concludes that economic justice is an intellectually disreputable phrase which has no meaning whatever in a free society.<sup>1</sup> This essay seeks to demonstrate not only why the concept of economic justice is an "empty economic box" but also that redistributive activity cannot be justified on economic grounds and is, in fact, inconsistent with freedom and generally perverse in terms of egalitarian standards. The ultimate justification for the market as opposed to political determination of incomes is shown to be a moral one. The market is the *only* voluntary method of organizing economic activity. In addition to facing insoluble information problems, central direction as a method of determining incomes is inherently involuntary. Moreover, there is a failure to recognize that the values sought by proponents of economic justice are mutually contradictory and that a choice must be made between freedom and attempts to achieve economic justice.

## *Economic Justice as a Norm*

THE ATTAINMENT of economic justice is often cited as the rationale for increasing governmental power to satisfy not only the poor but an ever increasing number of special interests including teachers, college students, farmers, auto and steel manufacturers, and labor unions. Although many people are dissatisfied with the existing pattern of incomes in the U.S., few of them have attempted to define a "just" pattern of incomes. Instead, we find intuitive feelings that incomes of certain individuals (at

both the upper and lower ends of the income scale) are "unjust." Economic justice implies that individuals should obtain particular income shares. This presumably means not merely that incomes should be determined by group (teachers, farmers, etc.) but that "just incomes" should be mandated for individuals within a given group.

The shortcomings of "economic justice" as an income distribution norm become clear when related to the operation of market and non-market economic systems. In a market system where individuals are free to choose in the sense that there are no arbitrary restrictions in choosing a job or opening a business, incomes and profits will vary widely between individuals due to variation in individual ability, effort, and luck.<sup>2</sup> Moreover, income inequalities are socially useful. They induce people to acquire useful skills, to undertake unpleasant tasks, to engage in risky ventures, and to postpone consumption necessary for capital formation.<sup>3</sup> Differences in tastes relative to work and leisure, time preference, risk, and other factors mean that incomes will vary widely when individuals are free to choose. Thus, no preconceived pattern of incomes satisfying any principle of distributive justice could be achieved in such a system.<sup>4</sup> Although income, estate, and other taxes may narrow the range of income differences, nobody's will in a non-totalitarian state can determine the relative pattern of incomes or prevent their being partly dependent on luck or accident. The wheat producer in recent years, for example, has found his income greatly affected by circumstances (e.g., Russian grain sales and embargoes) "beyond his control and knowledge."<sup>5</sup> Thus, the attainment of a particular pattern of incomes is inconsistent with a system where each individual is free to use his own knowledge for his own purposes.

Economic justice may be interpreted as applying to any rule change which makes incomes more equal. In this view, an increase in tax rates at higher income levels, for example, would be considered consistent with economic justice while a decrease in tax rates at upper income levels would not be. A bit of reflection, however, reveals that this concept of economic justice cannot be sustained. The idea that a particular pattern of income can be achieved through the tax system ignores the problem of economic incentives. Above some level, an increase in the rate of taxation will actually *decrease* the amount of taxes collected.<sup>6</sup> As tax rates are raised, economic incentives decrease the extent of compliance with tax laws and bring about a substitution of non-market for market activity. In Great Britain, Sweden, the U.S. and other countries of the West, for example, increasing tax rates have been accompanied by an increasing amount of economic activity in the "underground economy" where the exchange of goods and services is "off the books" and not subject to taxes. Gunnar Myrdal, long an advocate of the Swedish welfare state, recently stated "The tax system is turning Swedes into a gang of hustlers...the present tax system is making nine out of ten Swedes criminals."<sup>7</sup> A recent study estimated that unreported transactions in the U.S. are growing rapidly and totaled a staggering \$700 billion in 1978.<sup>8</sup> Although there is much uncertainty about the extent of the "underground economy" in the U.S., there is little doubt that the growth of the "black" economic sector has been stimulated by heavier tax burdens. In little more than a decade, the proportion of American wage-earners in the 25-percent-or-higher-tax bracket has grown from less than one in 11 Americans to nearly one in three.<sup>9</sup>

Attempts to redistribute income by taxing higher income groups and subsidizing lower income groups has two effects—one is on the incentive to substitute illegal for legal transactions just discussed. A second effect of higher tax rates is a substitution of leisure and other non-market activities for

market activities. An increase in tax rates reduces the cost of house painting, auto repair and other do-it-yourself activities. People respond to economic incentives regardless of income level. Thus, transfers to low income groups often assumed to be necessary for economic justice will bring about a substitution of leisure for work. Moreover, it is theoretically and practically impossible to devise income supplement programs to guarantee low income workers a given level of income without heavily penalizing work, *i. e.*, subjecting earned income to high marginal tax rates. This issue is closely related to the topic of economic "rights." A recent "right to food" resolution before the U.S. Congress proclaimed a right to food by human beings worldwide. Similar economic "rights" have been asserted in the case of health care and housing. Such positive "rights," however, demand as their counterpart that someone or group must provide the goods or services that others have the purported right to. If such claims are to be met, people must be directed what to do. Thus, such "rights" are incompatible with personal freedom.

Economic justice is usually discussed in connection with "equity" and "fairness." Equity, however, does not imply equality of incomes for people varying widely in productivity or even that incomes should be more equal than they now are. Much of the impetus behind the movement to achieve "economic justice" is based on the premise that distribution is independent of productive incentives and is *the* economic problem.<sup>10</sup> In a market system, however, incomes are determined jointly with resource use and, consequently, with the output of goods and services. Wealth cannot legitimately be regarded as fixed but varies with incentives. Relatively high incomes by some people whether due to superior effort, foresight, or accident is inherent in the capitalist system. Thus, the amount of product produced and available for consumption exists only because of an incentive system which permits people to engage in risk taking activity with the prospect of financial gain. Most people will feel that, with the possible exception of charity,

an economic system is inequitable if there is no clear relationship between rewards and productivity.<sup>11</sup> Under Civil Service and similar state classified job categories, for example, workers often receive the same pay for widely different amounts of work. That is, a secretary, school teacher, or other governmental employee in a given job classification is likely to receive the same amount of compensation regardless of the amount of work done. People generally holding egalitarian views sometimes decry the lack of flexibility to reward merit in such cases and hold that there should be a closer relationship between pay and productivity. This means, of course, that if pay were generally more closely related to productivity, incomes might well be *less* equal than they now are.

#### *Knowledge and Information Problems*

THE CLOSE relationship between individual freedom and the method of determining wages and prices is not generally recognized by proponents of economic justice. A competitive system maximizes choice and individual freedom. Since the only alternative to market prices in allocating resources is command by central authority, the central planner must decide both the tasks and the pay for different individuals. The idea of economic justice under such a system assumes not only that the state can and would have information as to what everyone "merits" in terms of income but that the state intervenes to bring about this condition. This approach fails to consider the importance of information provided automatically through the market. If wages are not based on supply and demand conditions, how would the planner determine relative wages? What wage does a ditch digger or a teacher "deserve"? How would individuals be assigned to different jobs? Any mandated system of economic justice implies the imposition of a given standard on people with widely different values. Thus, as Mises makes clear, the substitution of authority for market price signals implies authoritarian regimentation and means that little importance or

significance is attached to diversity and freedom of individual choice:

If righteousness is to be...the ultimate standard of economic action, one must unambiguously tell every actor what he should do, what prices he should pay in each concrete case, and one must force...all those venturing disobedience to comply with these orders.... No deviation from the unhampered market economy is thinkable without authoritarian regimentation.<sup>12</sup>

The belief that a just distribution of incomes can be objectively determined by the state assumes away information problems and ignores the coordination role of prices in a market economy. Prices act as signals to producers in deciding what and how much to produce. The self interest motive in striving for gain leads the individual to act in a way that is socially beneficial. That is, in the competitive market, the individual's actions are harmonized by the "invisible hand" with those of other members of society. Prices not only provide information but also provide incentives to move resources and products to more highly valued uses. Market prices change almost instantaneously reflecting expected changes in technology, tastes, etc. Thus, the widely dispersed knowledge in society will be taken into account and used more completely through the market than in any other known way.<sup>13</sup> Moreover, the market economizes on the use of knowledge since the individual producer or consumer needs to be concerned with only a small fraction of all the tradeoffs in the economy. When market decisions are superceded by central direction, the information conveyed by prices is inevitably distorted.

The contrast between the market and central direction in terms of knowledge is dramatic. The efficient use of resources becomes impossible if expected remuneration does not provide a signal as to where resource use will make the greatest contribution to the total product.<sup>14</sup> Prices set by government *fiat* convey no information about constantly changing economic tradeoffs arising from unpredictable

changes in technology, tastes and other factors affecting demand and supply. Although someone must attempt to reconcile all prices simultaneously under central planning, no central planner *can* capture these tradeoffs because of the separation of knowledge and power. The knowledge of subjective patterns of tradeoffs is nowhere articulated, even to the individual himself.<sup>15</sup>

Economic goods and services are inherently scarce. That is, something valuable must always be given up to obtain more of *any* economic good. Thus, any economic system must use some method of *denying* people access to goods and services.<sup>16</sup> The market uses price as the method of denial. Central direction, on the other hand, rations by authority. However, as illustrated by the following example, there is no way the central planner *can* cater to a diversity of individual tastes or take into account the individual differences of people in an almost infinite variety of circumstances:

Consider the use of gasoline. If the same amount of gasoline (e.g., 10 gallons per car per week) is allocated to each motorist, people in different circumstances will be affected in different ways. Some people live near their work—some live far away; some can easily carpool—others don't have this option; some have large cars—others have small cars; some people prefer to vacation near home—others prefer to travel.<sup>17</sup>

#### *"Merit" and "Just Price" as Allocation Criteria*

THE MARKET, then, offers maximum scope for personal eccentricity and diversity of individual tastes in coping with scarcity. Moreover, there is increasing evidence that collectivist methods of rationing do not foster social solidarity or bring about a less competitive, less acquisitive, or more honest citizen.<sup>18</sup> Instead, collectivist methods inherently involve a substitution of compulsion for voluntary decisions with a consequent decrease in individual

responsibility. A system where state power is used to enhance one's economic condition means (as shown below) that anti-social behavior becomes profitable for the individual.

Economic justice suggests that the economic return to land, labor, and capital must be "fair" or "just" and is closely related to the long discredited and futile medieval search for the "just price." It also implies that the "just price" should be based upon objective costs incurred by the producer rather than upon subjective evaluations of consumers. However, as illustrated by the following example, costs cannot be determined independently of consumer demand. In the case of a copper mine, for example, an increase in the demand for copper will increase the value of the mine and, consequently, the opportunity cost of producing copper. Competition will force the value of the mine up so that costs tend to rise to equal product price. Thus, the value of the mine and hence the cost of producing copper cannot be determined independently of the demand for copper. Moreover, the market clearing price is the only price which is compatible with the desires of producers and consumers. Thus, aside from the price or wage established in a competitive market the "just" wage or price has no objective content.<sup>19</sup>

In a society where individuals are free to use their own specialized knowledge, income or wealth arises mainly from trade as people exchange goods or services. Wages and prices which emerge through the market process don't purport to be a valuation of those who provide the services in question but are instead a measure of what purchasers are prepared to pay for these services.<sup>20</sup> Under these conditions differences in income or wealth, as Hayek suggests, have no relationship to merit except as it relates to the satisfaction of human wants:

...in a free system it is neither desirable nor practicable that material rewards should be made generally to correspond to what men recognize as merit and...it is an essential characteristic of a free

society that an individual's position should not necessarily depend on the views that his fellows hold about the merit he has acquired.... A good mind or a fine voice, a beautiful face or a skillful hand, and a ready wit or an attractive personality are in a large measure as independent of a person's efforts as the opportunities or the experiences he has had.... To decide on merit presupposes that we can judge whether people have made such use of their opportunities as they ought to have made and how much effort of will or self-denial this has cost them; it presupposes also that we can distinguish between that part of their achievement which is due to circumstances within their control and that part which is not.<sup>21</sup>

Thus, there is no way by which a group of democratically selected officials can make an assessment of the worth of people's activities to be used in determining their monetary reward which will be universally accepted. Moreover, only human conduct can be considered just or unjust. A state of affairs which nobody can change such as earthquakes, floods, droughts, and volcanos and other acts of nature cannot be considered unjust. As Hayek suggests, "...unless we believe that somebody could and should have arranged things differently, it is meaningless to decide a factual situation as just or unjust."<sup>22</sup>

The market, as indicated above, rewards individuals according to their success in the market. While the individual's income share depends on both skill and chance and is to some extent unpredictable, this process improves the prospects of people generally more than any other known method. That is, it causes people to act in ways which maximizes the aggregate output of goods and services. An inevitable result of the market system is that some people will have higher incomes than other people feel they ought to have.<sup>23</sup> Apart from variation in incomes due to chance, the diversity of individual tastes means that market processes necessarily produce a

"chaotic" pattern of income from the standpoint of any given scale of values. People who are convinced that their own values are superior for themselves and for other people will necessarily be offended by the incomes of many people in a market economy.<sup>24</sup> The school teacher or nurse, for example, may be offended by the much higher income of the sports star or entertainer. It must be stressed then that income in the market economy is related not to the individual producer's merit but rather to the value placed by others on the services provided.

The diversity of tastes catered to by the market is a strength but it also makes the market politically vulnerable. The pattern of incomes determined through the market is attacked not only because some people will have low incomes when rewarded on the basis of productivity, but also because many people have higher incomes than others feel they "deserve." Individuals determined to achieve "justice" (in the sense of making incomes more equal) through governmental means typically ignore the fact that government programs *generally* have perverse results in terms of egalitarian standards. The fact that operations of political institutions in practice fall short of an idealized polity has been referred to as "government failure."<sup>25</sup>

### *Government Failure*

GOVERNMENT PROGRAMS, although generally justified in terms of the "public interest," usually benefit politically powerful groups including, for example, farmers, college students, teachers, labor union members, the Hunt Brothers, and the Chrysler Corporation rather than merely low income groups. A protective tariff is imposed on cheese, for example, not because domestic cheese producers have unusually low incomes but because they have an effective political lobby. Thus, the effect of government programs generally is to widen rather than narrow the distribution of income. In the case of agriculture, for example, the largest 20 percent of the farms in the U.S. receive more than half of the direct govern-

ment payments.<sup>26</sup> Price support programs for milk, sugar, tobacco and peanuts are based on *volume of production* and, consequently, yield larger benefits to larger producers. Moreover, these programs which result in higher retail prices of milk, sugar, etc. mean that many low income consumers subsidize agricultural producers with relatively higher incomes.

Similarly, although minimum wage legislation produces gains for some workers, it is inevitably at the expense of increased unemployment on the part of workers at the low end of the wage scale. Likewise, labor unions benefit members retaining employment at the expense of workers either becoming unemployed or shifting into lower value employment. Thus, these government sanctioned restraints are antithetical both to freedom of contract and to those interests which they purport to serve, *viz.*, low income workers — including teenagers and minorities.<sup>27</sup> Such programs, as Sowell emphasizes, are inconsistent with the professed egalitarian goals of their supporters:

By lobbying for such laws, labor unions price these youngsters out of the job market and thereby preserve their own wage scales, all in the name of 'humanitarian' objectives.<sup>28</sup>

In these and numerous other cases, regulation is used to restrict competition giving cartel powers to established members of the regulated occupations.<sup>29</sup>

Much special interest legislation can be explained in terms of costs and benefits to particular groups. The benefits of the sugar price support program, for example, which results in domestic sugar prices at more than twice the world market price are highly important to the 15,000 sugar producers in the U.S. Yet, our expenditure on sugar as individual consumers is sufficiently low so that it is not in our economic interest to devote a great deal of time to sugar legislation.<sup>30</sup> This phenomenon of highly concentrated benefits and widely diffused costs appears to be the explanation for much government intervention. In view of these imperfections in the political

process, it cannot be assumed either that the stated purpose of legislation to redistribute income is beneficial or that actual program results will be consistent with the stated legislative purpose.<sup>31</sup>

Attempts to bring about a more equitable income distribution through the political process face formidable barriers.<sup>32</sup> First, as indicated earlier, there is no consensus as to what is "fair" and the attainment of any particular pattern of income is inconsistent with a voluntary system. Second, even if there were a consensus that incomes should be more equal, the philanthropy model, as shown in the following section, does not appear relevant to most government redistribution. Despite the fact that the state is commonly used by politically powerful groups to restrict competition and to make incomes less equal, however, there has been and continues to be a great deal of effort devoted to the justification of governmental redistribution.

#### *Redistribution and Its Unintended Consequences*

ECONOMISTS HAVE BEEN ingenious in devising theoretical arguments to justify redistribution by the state. Consider decreasing marginal utility of income as a justification for redistribution. This argument holds that utility of income increases at a decreasing rate, that marginal utility of income is lower for the higher income person and, consequently, that total utility would be increased by transferring income from higher income to lower income groups. The problem with this argument, of course, is that interpersonal comparisons of utilities are not valid. Thus, one cannot demonstrate logically or empirically that transferring income from a high to a low income person will increase the total utility or satisfaction of the two people.

Historically, attempts have also been made to justify progressive income taxes on redistribution grounds. Redistribution in this case also involves coercion by the state in transferring income between in-

dividuals. Attempts to justify progressive taxation have not been successful since there is no objective way to compare the utilities of different individuals.<sup>33</sup> Progressive taxation, in practice, is also largely counterproductive in terms of egalitarian goals. Under highly progressive rates, a great deal of time and effort is expended on tax avoidance (tax loopholes) and tax evasion. Moreover, as indicated above, the disincentive effects of high marginal tax rates reduce the efficiency of resource use and production.<sup>34</sup> Milton Friedman estimates that a flat rate of "well below 20 percent" on taxable income would yield as much income as the present steeply graduated rate.<sup>35</sup>

More recently, "public goods" theory has been proposed as a basis for "Pareto optimal" income redistribution.<sup>36</sup> Charity is said to be a "public good."<sup>37</sup> When Jones makes a contribution to a poor person, there is non-exclusion in the sense that the charitable act benefits not only Jones but other people who share Jones' charitable impulse. Each potential donor under these conditions might agree to make a contribution only on condition that other potential donors also contribute. That is, each potential donor has an incentive to hold down his own contribution and "free ride" on the redistribution accomplished by other members of the non-poor group. Thus, Hochman and Rogers argue that the level of voluntary charity is sub-optimal and that government intervention in the form of transfers is warranted to overcome the "free rider" problem associated with voluntary charity.

The conclusion that the level of voluntary charity is sub-optimal is not persuasive since government transfers do not conform to the "public goods" model of income redistribution. First, the idea that transfers are from higher to lower income people is unrealistic for a major part of government redistribution.<sup>38</sup> Most government sanctioned redistribution as in the case of labor unions, tariffs, subsidies, and occupational licensure, benefits a small group not defined by income at the expense of a larger group. Moreover, most government redis-

tribution takes place *within* the middle class and the bulk of transfers do not assist the lowest income groups. Second, "Pareto optimal" redistribution assumes that government transfers involve benevolence of the kind inherent in voluntary charity. However, state "charity" by its very nature is inherently coercive. Thus, the idea of "Pareto optimal" redistribution is inconsistent as long as there is at least one Murray Rothbard who opposes *all* involuntary redistribution.<sup>39</sup> Thus, it has not been demonstrated that redistribution increases welfare.

There is an important distinction between charity and government transfers. Charity, being freely given, implies benevolence. The proponent of government transfers, however, is not likely to be motivated by a charitable impulse since, as shown above, most transfers are made to assist teachers, college students, union members and other middle or upper income groups. Indeed, the desire to see genuine distress alleviated at the expense of other people may be motivated more by envy than by benevolence. Compelling people to contribute against their will is inconsistent with benevolence.<sup>40</sup> Moreover, redistribution conflicts with personal freedom and individual responsibility—moral values shared by many who advocate redistribution. Ellul stresses why ends cannot be used to justify means in a discussion which seems appropos to redistribution by the state:

Means not only have expected effects. Much more often they have invisible and unforeseeable effects which in the long run turn out to be hostile to the objective sought, so that no trace of the end remains.... Hence a special examination of means is needed. They must be justified not just by their efficiency or end but by themselves and in themselves.... Thus means which negate freedom can never lead to freedom.<sup>41</sup>

It is usually assumed that voluntary charity would be inadequate to care for the truly needy and handicapped if government welfare programs were repealed. The

magnitude of private philanthropy currently, however, is evidence that charity need not be legislated. In 1978, total philanthropic contributions in the U.S. hit a level of almost \$40 billion.<sup>42</sup> The level of contributions would undoubtedly be much larger in a system of private charity since redistribution serves to stifle the charitable impulse adversely affecting voluntary transfers. Moreover, recent changes in the tax laws have inhibited and complicated donations by individuals and have constricted charitable activities of foundations. Conditions in the U.S. in the 1800's are sometimes cited as evidence that private charity is not capable of providing for the needy. However, per capita incomes were much lower then than now, so that there was less income available for benevolent purposes. Poverty and hunger today in socialist states in Africa, Cuba and other areas is evidence that collectivism is no guarantee against these conditions. Since most government induced redistribution is between middle income classes, it is conceivable that the poor would receive more if they depended on pure charity rather than on government transfers where the political process is inevitably subject to "government failure."<sup>43</sup>

Redistribution also impedes the production of wealth. Hayek indicates why interference in the market at the behest of various interest groups is incompatible with both production efficiency and the preservation of personal freedom:

Governments, to be successful would at the same time have to preserve functioning markets...in such a way as to serve as reliable guides to production, *and* also somehow so to influence at least the prices of labour...as to satisfy demands for just or equitable remunerations. To satisfy both of these requirements in full is impossible.... Once claims for interference with the market in favour of particular groups have come to be frequently recognized, a democratic government cannot refuse to comply with similar demands of any groups on whose votes it depends. Though the pro-

cess may be gradual, a government which begins to control prices to secure popular conceptions of justice is bound to be driven step by step towards the control of all prices; and, since this must destroy the functioning of the market, to a central direction of the economy.<sup>44</sup>

Adam Smith demonstrated how the "invisible hand" under competitive conditions harmonizes the selfish acts of individuals. The "invisible hand" associated with self interest has different implications, however, for the group since the desire of members to become members of a closed group is likely to be in opposition to the general interest. Groups have a financial incentive to collude and use the power of the state to restrict competition. Unless government positively assists or tolerates the use of coercion in organizational efforts, however, the existence of common interests (except for small groups) will not generally lead to a comprehensive organization of such interests. Hayek describes the ultimate result of widespread efforts by various groups to use the state to enhance their own interests:

The root of the trouble is...that in an unlimited democracy the holders of discretionary powers are forced to use them, whether they wish it or not, to favor particular groups on whose swing vote their powers depend.... So long as it is legitimate for government to use force to effect a redistribution of material benefits...there can be no curb on the rapacious instincts of all groups who want more for themselves. Once politics becomes a tug-of-war for shares of the income pie, decent government is impossible.<sup>45</sup>

All interests cannot benefit by organizing their members for common action. However, the more groups do so, the more necessary it is for remaining groups to organize since those who fail to do so will be "left out in the cold." Thus, the solution is to outlaw as immoral and anti-social the use of coercion to assure certain incomes to particular groups.<sup>46</sup>

## Conclusions and Implications

ECONOMIC JUSTICE is sometimes used as an innocent expression of goodwill toward the less fortunate. In this context, it might be helpful as long as it serves to heighten the charitable impulse. However, the use of the term is more likely to increase envy leading to attempts by individuals and groups to help themselves at the expense of other people.<sup>47</sup> It is important to recognize and maintain the distinction between private charity which, by definition, is freely given and public transfers which, being acquired by taxation, always involve coercion.

In summary, economic justice in the sense of imposing a "just" distribution of incomes is (as Hayek suggests) a mirage. The concept is empty in a competitive system since nobody's will can determine relative incomes or prevent them from being determined partly by accident. Under capitalism, incomes are determined jointly with the allocation of resources, and market prices ensure that widely dispersed knowledge in society is taken into account and used more efficiently than by any other known method. The distribution of income under the voluntary decision process of the market is "fair" if freedom is held to be the most important value.<sup>48</sup> No other economic system permits the individual to as fully use his own knowledge for his own purposes. The only alternative

to the price system is central direction which is inherently coercive. Moreover, as Ellul makes clear the struggle to impose anyone's concept of economic justice through the political process is inconsistent with freedom:

...what we now call the fight for social justice is strictly a fight against freedom. This is unavoidable.... Those who think that they can effect a reconciliation are either theorists who do not know modern socioeconomic life or Machiavellians whose stock in trade is double talk and illusion. A choice has to be made.<sup>49</sup>

A choice must be made since imposed egalitarian standards are contradictory with the values of freedom and individual self responsibility. Moreover, differences of opinion concerning the merits of market freedom versus state imposed "economic justice" hinge to a large extent on a different assessment of the effects of redistribution rather than on differences in these basic values. Thus, when economic justice is subjected to scientific analysis it is seen that:

...the methods advocated by socialists can never achieve what they promise, but also that the different values they hope or claim to serve cannot by any possible procedure be all realized at the same time, because they are mutually contradictory.<sup>50</sup>

<sup>47</sup> "...I have come to feel strongly that the greatest service I can still render to my fellow men would be that I could make the speakers and writers among them thoroughly ashamed ever again to employ the term 'social justice.'" F. A. Hayek, *Law, Legislation and Liberty*, Vol. 2, *The Mirage of Social Justice* (Chicago: The University of Chicago Press, 1976), p. 97. The terms "economic justice" and "social justice" are used synonymously throughout this paper. <sup>48</sup>The "market" is no particular set of institutions but rather the freedom to choose among many existing or still to be created possibilities. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), p. 41. <sup>49</sup>Abba P. Lerner, *Everybody's Business* (N.Y., Harper and Row, 1964). <sup>50</sup>"Either we leave men free and soon there will be no equality, since the stronger will carry the day, or we may insist on equality and are thus forced to interfere with liberty." Jacques Ellul, *The*

*Ethics of Freedom*, (Grand Rapids: W. B. Eerdmans Publishing Co., 1976), p. 403. <sup>51</sup>Hayek, *op. cit.*, p. 73. <sup>52</sup>Jude Wanniski, *The Way the World Works* (New York: Simon and Shuster, 1978). <sup>53</sup>Cited in Arthur Shenfield, *The Failure of Socialism: Learning from the Swedes and English* (Washington: The Heritage Foundation, 1980), p. 16. <sup>54</sup>Edgar L. Feige, "How Big is the Irregular Economy?" *Challenge*, Nov.-Dec., 1979, pp. 5-13. <sup>55</sup>Orrin Hatch, "Inflation, Taxes, the Budget, and You," *The Readers Digest*, July 1980, p. 75. <sup>56</sup>Michael Novak, "Productivity and Social Justice," Ch. 4 in *Will Capitalism Survive?* E. W. Lefever, ed. (Washington: Ethics and Public Policy Center, Georgetown University, 1979). <sup>57</sup>E. C. Pasour, Jr., "Benevolence and the Market," *Modern Age*, Spring 1980, pp. 168-78. <sup>58</sup>L. von Mises, *Human Action*, Third ed. (Chicago: Henry Regnery Co., 1963), pp. 729-78. "Compulsion is so much of the

essence of the welfare state that we should really call it the compulsory welfare state...." Wilhelm Roepke, *Against the Tide* (Chicago: Henry Regnery Co., 1969), p. 212. <sup>13</sup>F. A. Hayek, "The Use of Knowledge in Society," pp. 77-91 in *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948). <sup>14</sup>F. A. Hayek, "The Atavism of Social Justice," pp. 57-68 in *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago: The University of Chicago Press, 1978). <sup>15</sup>"I might think that if faced with the stark prospect of bankruptcy, I would rather sell my automobile than my furniture, or sacrifice the refrigerator rather than the stove, but unless and until such a moment comes, I will never know even my own tradeoffs, much less anybody else's." Sowell, *op. cit.*, p. 218. <sup>16</sup>*Ibid.*, p. 45. <sup>17</sup>Pasour, *op. cit.*, p. 176. <sup>18</sup>Melvyn B. Krauss, "The Social Democracies: Equality Under Strain," *The Wall Street Journal*, Feb. 1, 1980. <sup>19</sup>Hayek, 1976, *op. cit.*, p. 75. <sup>20</sup>Samuel Brittain and Peter Lilley, *The Delusion of Incomes Policy* (New York: Holmes and Meier, 1977). <sup>21</sup>F. A. Hayek, *The Constitution of Liberty* (Chicago: The University of Chicago Press, 1960), pp. 94-95. <sup>22</sup>Hayek, 1976, *op. cit.*, p. 32. <sup>23</sup>Hayek, 1978, *op. cit.* <sup>24</sup>Sowell, *op. cit.* <sup>25</sup>Charles K. Rowley, "Market 'Failure' and Government 'Failure'," pp. 29-43 in Buchanan, James M. et al., *The Economics of Politics*, IEA Readings 18 (London: The Institute of Economic Affairs, 1978). <sup>26</sup>U.S. Department of Agriculture. *Farm Income Statistics*, Economics, Statistics and Cooperative Service, Statistical Bulletin No. 627, Oct. 1979. <sup>27</sup>"I would guess that if we abolished the minimum wage law, reduced licensing restrictions, changed labor legislation and reorganized the delivery of education, in twenty to thirty years hence there would be no 'Negro problem' as there is no Japanese, Chinese, Jewish or other earlier-immigrant problem. These people were able to start off poor and progress because they did not face the market restrictions that today's minorities face." Walter E. Williams, "Government Sanctioned Restraints that Reduce Economic Opportunities for Minorities," *Policy Review*, Vol. 2, Fall 1977, p. 24. <sup>28</sup>Thomas Sowell, "Racism, Quotas and the Front Door," *The Wall Street Journal*, July 28, 1978. <sup>29</sup>George J. Stigler, "The Theory of Economic Regulation," *The Bell Journal of Economics*, Vol. 2, No. 1, Spring, 1971, pp. 3-21. <sup>30</sup>E. C. Pasour, Jr., "A Critique of Federal Agricultural Programs," *Southern Journal of Agricultural Economics*, Vol. 12, No. 1, July 1980, pp. 29-37. <sup>31</sup>James Dale Davidson, *The Squeeze*, (New York: Summit Books, 1980). <sup>32</sup>Abba Lerner suggests that the aim of public policy should be to try to remove all inequalities which are "not functional and which are due to restrictions" (*op. cit.*, p. 103). There are two problems with this approach. First, it assumes that there are economic rents (or "free lunches") which can be taxed away without affecting future production. There are, however, no neutral taxes. Second, even if inequalities existed which were "not functional," governmental actions

would be subject to the same government failure forces observed in current redistributive activity. <sup>33</sup>Walter J. Blum and Harry Kalven, Jr. *The Uneasy Case for Progressive Taxation* (Chicago: The University of Chicago Press, 1953). Murray N. Rothbard, *Power and Market, Government and the Economy* (Menlo Park: Institute for Humane Studies, Inc., 1970). <sup>34</sup>Milton Friedman, *Capitalism and Freedom* (Chicago: The University of Chicago Press, 1962). <sup>35</sup>Milton Friedman, *An Economists' Protest*, Second ed. (Glen Ridge, N.J.: Thomas Horton and Daughters, 1975), p. 92. <sup>36</sup>Harold M. Hochman and J. D. Rodgers, "Pareto Optimal Redistribution," *American Economic Review*, Vol. 59, Sept. 1969, pp. 542-57. An action is said to be "Pareto better" if at least one person is made better off without making anyone worse off. <sup>37</sup>A "public good" is characterized by non-exclusion and non-rivalness in consumption. <sup>38</sup>Gordon Tullock, "The Charity of the Uncharitable," *Western Economic Journal*, Vol. 9, Dec. 1971, pp. 379-92. <sup>39</sup>E. C. Pasour, Jr., "Pareto Optimality as a Guide to Income Redistribution," *Public Choice* (Forthcoming). <sup>40</sup>Robert Nozick, *Anarchy, State, and Utopia* (New York: Basic Books, Inc., 1974), pp. 265-68. <sup>41</sup>Ellul, *op. cit.*, p. 405. <sup>42</sup>Stuart M. Butler, *Philanthropy in America: The Need for Action* (Washington: The Heritage Foundation, 1980). <sup>43</sup>"...it seems fairly clear that most politicians regard transfer of funds by government process as mainly a way of purchasing the votes of the people who receive the funds not of those people who might be charitably interested in the wellbeing of such people.... This phenomenon has led me to speculate on whether the poor might not do better if they depended on pure charity, rather than on an attempt to use the weight of their votes to acquire funds." Tullock, *op. cit.*, p. 390. <sup>44</sup>F. A. Hayek, "Socialism and Science," Chapter 20 in *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago: The University of Chicago Press, 1978), pp. 300-301. <sup>45</sup>F. A. Hayek, *Law, Legislation and Liberty*, Vol. 3, *The Political Order of a Free People* (Chicago: The University of Chicago Press, 1979), pp. 139 and 150. <sup>46</sup>Arthur Shenfield, "Law, Legislation and Liberty: Hayek's Completed Trilogy," *Modern Age*, Spring 1980, pp. 142-49. <sup>47</sup>Ellul shows that justice attained by political activity is an illusion. "A fundamental contradiction exists between politics and justice....A well-conducted political move can never produce anything but power—the institutions created by it are only ends or instruments of such power....The more an individual has become politicized...the more will he be focused on and oriented toward that basic political force and form: the state....for him, the only problem is: who will control the state?" Jacques Ellul, "Politicization and Political Solutions," pp. 211-47 in *The Politicization of Society*, K.S. Templeton, Jr., ed. (Indianapolis: Liberty Press, 1979), quote from pp. 245-46. <sup>48</sup>Irving Kristol, "What is 'Social Justice?'" *The Wall Street Journal*, August 12, 1976. <sup>49</sup>Ellul, 1976, *op. cit.*, pp. 403-404. <sup>50</sup>Hayek, "Socialism and Science," p. 296.