

# New work for invisible hands

A future for  
libertarian thought

---

RICHARD  
CORNUELLE

**TLS**

THE TIMES LITERARY SUPPLEMENT

Priority House,  
St. John's Lane, London EC1M4BX.  
Telephone: 071-253-3000.  
Fax: 071-2451-3424.

In the late 1940s, I went to New York City, fresh from college, to study with Ludwig von Mises, the intrepid Austrian economist who had, thirty years before in 1920, fully explained the inevitability of the eventual collapse of socialist economies. The socialists had sent the celebrated Polish economist Oskar Lange into the lists against him, and while Mises clearly won the encounter on points, such was the emotional appeal of socialism's promise to set right the alleged iniquities of a capitalist order that Lange was lionized and Mises became something of a pariah.

It was a dark hour for the libertarians, and for Mises, their unanimously acknowledged intellectual godfather. In those days, libertarian ideas were considered not just unfashionable but pernicious. Mises's place in the public consciousness, if he had one at all, was in socialist demonology. He was teaching part-time at the Graduate School of Business Administration at New York University because it was the only job he could get. He could only afford one season ticket to the opera and he and his wife attended alternate performances. Mises's distinguished student, F. A. Hayek, who would win a Nobel prize in 1975, had been turned down by the Department of Economics at the University of Chicago and a number of other institutions. Hayek had finally found a place at Chicago's Committee on Social Thought after an obscure mid-Western foundation, realizing that libertarian scholars were becoming extinct, had arranged to pay his stipend.

When I joined Mises's seminar, it was meeting twice a week in the late evening in a low-ceilinged cellar room, as befitted an underground movement, in the shadow of Trinity Church in lower Manhattan. We were usually about a dozen. Mises arrived last, always on the stroke of the appointed hour, impeccably dressed. He took a single page of notes in German from a small envelope, grasped the edge of the table with his palms flat on the top and his thumbs under, and spoke without interruption for an hour and a half, in a kind of accented chant as if he were reciting scripture from memory. Then there were questions, which he usually answered by repeating, almost word for word, the part of his recitation the question suggested. His method seemed entirely appropriate. We sensed we were in the presence of a towering and uncommonly disciplined intelligence, martyred and misunderstood. We knew Mises had paid dearly for his beliefs. When his monumental *Human Action* was published in 1949, the year I joined the seminar, the *New York Times Book Review's* reaction was to reproach the Yale University Press for publishing it. This sort of thing, of course, only intensified our devotion. We would, except for the practical difficulties, have carved our notes in stone.

So if the collapse of communism caught the CIA and others unaware, it was certainly no surprise to the students of Mises's NYU seminar. We had been expecting it for forty years. With a confidence no less certain because we had acquired it fortuitously, we knew socialism was doomed and we knew why.

Now everyone knows what we knew; the one big thing the libertarians knew and could explain better than anyone else – that the invisible hand of the market is a more reliable organizer of the economic life of nations than the visible hand of the state – is

suddenly the newest universal. The collapse of the communist economies has at last put to rest one of the great unsettled questions of modern times, which absorbed an unreasonable share of the world's intellectual energy for nearly a century. Libertarians had it right from the very beginning.

The assimilation of this enlightenment into everyday affairs will be a long and uncertain process. It may take years, for example, for the people of the Russian republics to digest the idea that the acquisitive private vices they have been conditioned for three generations to repress must now be indulged in the public interest. But socialism is dead; its ponderous "how to" literature has become waste paper; and history has exonerated libertarian scholarship.

The irony is that while the libertarians waited for nearly a century for acceptance, the sun shone on them for only a moment. Their central proposition was promptly absorbed into the conventional wisdom and is no longer interesting. Now the unsettled questions are in new and less familiar territory. The dialogue is shifting to ground for which, regrettably, the libertarians are no better prepared than anyone else.

Libertarian thought is wonderfully sound as far as it goes, but there are two gaping holes in it that now gravely threaten its relevance. For one thing, there is no very distinct libertarian vision of community – of social as opposed to economic process – outside the state: the alluring libertarian contention that society would probably work better if the state could somehow be limited to keeping the peace and enforcing contracts has to be taken largely on faith. Nor have libertarians confronted the disabling hypocrisy of the capitalist rationale which insists that while the capitalists themselves must have extensive freedom of action, their employees may have much less. Their explanation of how an invisible hand arranges economic resources rationally without authoritarian direction stops short at the factory gate. Inside factories and offices, the heavy, visible hand of management continues to rule with only token opposition.

The repudiation of communist economics is shifting the intellectual action from a battle in which the libertarians held the high ground to one where they hold no ground at all. From the beginning and almost to the end, communism drew its legitimacy from its ends rather than its means, from the powerful echo of its original promises to protect ordinary people from the hazards of life in a capitalist society. Large numbers of working people and their intellectual surrogates still feel in their bones that an unfettered market is a jungle, that workers do not get their fair share of what they produce, that capitalism so degrades and disorients working people that they cannot make mature decisions about their own welfare, that it pollutes the streams and waters the whisky, that it creates an acrid social atmosphere in which the smell of money works its way indelibly into the fabric of everything, that it leaves undone or poorly done all the things a good society needs most, and finally that capitalism is given in its nature to large arrhythmic spasms, and that the burden of this abiding economic insecurity falls primarily on working people.

In fact, the essentials of this capitalistic nightmare were most brutally realized in the communist

Soviet Union, where the members of a new ruling class lived like Western rock stars on unearned income and the simplest human and material requirements of ordinary people were ignored entirely. Economic insecurity, far from being eliminated, was collectivized. And after a while the theory of worker control was small comfort to workers in rigidly regimented and politicized workplaces. But in spite of these disappointments, the belief in the accuracy of the Marxian indictment of capitalism persists with a remarkable intensity, certainly in the East and to a considerable extent everywhere. The Marxian prescription, or at least its economic ingredient, may be in disrepute, but Marx continues to control the social agenda from his grave in Highgate.

In this context, the Soviet débâcle is simply a victory of the reformers of the left over the revolutionaries of the left, settling once and for all the historic tactical debate whether to tame capitalism or replace it. The supporting premiss of the reformist view is that Marx's analysis of the perils of capitalism is more or less correct, but that the way to right these wrongs is not to overthrow capitalism but to domesticate it – treating it like one of those factory-produced chickens, giving it just enough freedom of movement to stay a little healthy, and just enough nourishment to get a little fat – and then use the wealth it produces to provide whatever working people need and are too poor or improvident to provide for themselves. This is the new consensus: democratic political institutions, a closely watched and guided market economy; and a welfare or service state with a broad charter to keep the society fit for human habitation. This now fashionable arrangement is to be found with only superficial variations throughout the industrialized world, in countries as culturally diverse as Japan, Sweden, Britain and the United States.

**T**his "system", to which the newly non-communist nations are thoughtlessly gravitating – variously called social democracy, democratic socialism or market socialism – is everywhere, particularly in the United States, showing signs of strain. Eastern European countries may only have jumped out of the fire and into the frying pan. They, along with the rest of the developed world's democracies, are staring down the barrel of the same *non sequitur*: if it is true that the state is bound by its nature to bungle the business of making steel or shoes, what makes us think it is any better at the vastly more complex responsibilities of the modern full-service state – educating children, providing pensions and health care, eliminating unemployment, protecting depositors from the imprudence of their bankers and providing hundreds of other services, presumably necessary but beyond the reach of the market, and not just for the minority who have been left behind, but for practically everyone?

In fact, the incompetence of the state as social engineer is by now almost as well documented as its incompetence as economic manager. The 1930s and 40s produced a large, ardent literature that imagined the boundless possibilities of activist government. The 1960s, 70s and 80s produced a literature of an entirely different sort – sadder, saner, sometimes hair-raising chronicles of the failures of the state's efforts to improve society. In the United

States, the early work in this genre was done by a handful of libertarian and conservative scholars. In time, they were joined by many of their former "liberal" adversaries – those Irving Kristol said had been mugged by reality. They became the born-again conservatives, the "neo-conservatives". One by one, disillusioned liberals defected, wrote a penitential monograph about how this or that promising government programme had failed in practice, until their ranks were so emptied of objectivity and common sense that one of their number called for a new, "rational" liberalism and thus gave birth to "neo-liberalism", which joined in the fun. Now the literature documenting the failure of state action has become almost as immense, impenetrable and depressing as government itself.

Thus the American service state, our not very original version of social democracy, an undertaking now at least three times as large as the whole Soviet economy, is no longer sustained either by logic or any record of practical success. It is becoming clear that we have confused the state's blustering eagerness to take responsibility with an innate capacity to exercise it. The American service state survives and flourishes only because an invincible political majority insists that its failing programmes be continued because they are familiar and because there are, or seem to be, no alternatives. The so-called Reagan revolution was bogus – a disguised tax revolt. It was not an effort to repeal the service state but to preserve it – and to substitute debt or inflation for taxation as a way of paying its politically irreducible costs. But the illusion that gave the Reagan programme its ephemeral plausibility has already faded, and America's social democracy is caught in a contradiction from which there is no convenient exit. The status quo is impossible to defend and impossible to change. The American polity is reaching a dead end, and libertarian thought, in its present state of development, doesn't help.

Thanks in large part to libertarian scholarship, there is a well-understood alternative to the strictly economic half of the traditional socialist programme: state operation of the nation's economic institutions – its farms, factories, banks and power plants. In this sector, libertarians know what they are for. A highly refined literature explains precisely why a centrally directed economy can't work, but it also explains with a practised clarity how free markets do work and why. There is a well-travelled pathway to change. If a nation decides to desocialize its mail service or its rum distilleries, it can issue shares and sell them to the public, or it can decriminalize competition and suspend subsidies to the state enterprises. Libertarians can demonstrate how competitive services would come into being overnight and why, in time, they would work better and cost less than whatever state entities they had displaced. Given the political will, privatizing partial socialism in countries where free capital markets exist, as Mrs Thatcher and others have demonstrated, is a comparatively straightforward business.

Privatizing the other half of a socialist programme, the social services that remain when the last state enterprise has gone private – the part that is practically indistinguishable from the democratic West's social service states – is a task of another

order altogether. If there are alternatives to the state's failing efforts to get rid of Skid Row, eliminate involuntary unemployment, eradicate illiteracy, provide reasonable pensions, treat the indigent sick, de-toxify the environment, among a thousand other problems that beset and perplex an industrial society, there is only the dimmest awareness of them, and certainly no confidence that they would work. (That is one of the reasons why Americans sound so confused when they talk to opinion pollsters, saying usually that government programmes are failing miserably and ought to be expanded.)

Here, libertarians can respond only by stretching market theory beyond its natural limits. They understand economic process. Increasingly they understand political process (the libertarian James Buchanan won a Nobel prize in economics for his work in public-choice theory). But their understanding of *social* process is scarcely developed at all. Thus the service state is immune to libertarian thought in its present, unfinished condition. However, there is gathering evidence that there are half-forgotten, potentially powerful, largely dormant social forces that might, in time, become a strong alternative to state social action. This dimension of society is practically begging to be rediscovered, explored and understood. It has a glorious past, an ambiguous present, but possibly a considerable future.

**B**efore America's Great Depression, after a century and a half of remarkable growth, there was a formidable alternative to government action for almost every aspect of the public business, from disease control to economic stabilization. Tocqueville had considered the American habit of aggressive and imaginative voluntary action in the public interest – neither commercial on the one hand nor governmental on the other – the most distinctive and promising aspect of the developing American polity. When the crash came in 1929, this third dimension or "sector" of society (now increasingly called the "independent" sector) had become so large and complex as to be literally indescribable in any reasonable space. Nor had anyone catalogued its elements or assessed its total contribution to the general welfare. Even now, the organizations of the independent sector are waiting to be counted and classified.

America's overall institutional landscape includes one federal government, fifty state governments, and about 80,000 local government entities of various shapes and sizes. There are probably more than 15 million commercial entities, including those underground, ranging from bootblacks and pushcart peddlers to giant conglomerate corporations. And running through and among and around all these like glue are the institutions of this third, uncharted independent sector, perhaps several million of them altogether. The variety of their purposes is staggering. There are hundreds of universities, elementary and secondary schools, thousands of hospitals, museums, orchestras, opera companies and libraries; and hundreds of thousands of mutual aid groups like Alcoholics Anonymous, to mention only a few of the sector's most familiar and visible institutions.

How we could mislay a sector of society of this

size and scope is something of a mystery. Perhaps the decline of this dimension of American pluralism began when Woodrow Wilson, the schoolmaster President, set out to use his extraordinary wartime powers to jail all our most gallant, original and entertaining misfits and "rationalize" American society. In any case, by 1946 the American tradition of independent action on the public business had been buried alive – an accidental casualty of Wilson, two wars which greatly improved the health of the state, a thoroughly demoralizing depression, and, finally, the politically captivating Keynesian contention that, in a presumably mature economy, government spending was often its own justification. This gave government a decisive advantage in the continuing competition for social responsibility, and the independent sector stopped growing. Many of its forms have survived and since the 1960s a tentative renaissance has begun, but for half a century, the third sector was in limbo, the victim of an unexamined supposition that in an industrial society, organized social action outside the state was technologically obsolete.

So while there can be no question about the existence of a third sector, there are everywhere understandable doubts about its fitness as a competitor for the vast responsibilities of the welfare state. Given the present state of social thought, it is as hard to believe in the utility and virility of independent social action as it was to believe in the rationality and moral legitimacy of free markets before *The Fable of the Bees* and *The Wealth of Nations*. We need now to understand voluntary social process as completely as we understand market process, and libertarians could show the way.

As the dust settles on the ruins of the socialist epoch, a second crippling deficiency of libertarian thought is becoming more visible and embarrassing. The economic methodology that the Russians have lately found unworkable still governs the internal affairs of firms in capitalist and socialist countries alike. An economy presumably works best if it is not administered from the top; a factory presumably works best if it is.

In Adam Smith's hypothetical pin-factory, the work was divided and specialized – and hence much more productive. That perception (and a dozen other converging circumstances) became the basis for the industrial era. Another element drew less attention; the method used to co-ordinate the efforts of specialized workers was evidently borrowed from the Army, the principal previous undertaking that had involved substantial numbers of specialized participants. The necessary co-ordination was accomplished by regimentation, some people giving orders and others taking them. This primitive method survives in the modern corporation along with its military vocabulary: officers, rank and file, staff, chain of command and the like.

When freemen went to work in factories, their status was not unlike that of the iron-collared serfs who had preceded them. Their employment was a kind of voluntary indenture, tacitly renewed each day, in which the worker agreed to submit to supervision for a certain number of hours for an agreed-to amount of pay. Workers were free in one sense, but painfully unfree in another. Feudalism had only moved indoors. The movement to civilize this relationship has been more or less continuous.

Workplaces have been made safer, lighter, warmer and more agreeable. Wages are higher, hours shorter, and an accumulation of law and custom has elaborated the rights of employees and put limits on the prerogatives of employers. But the system has yet to be altered elementally. Working people are far, far freer than slaves or indentured servants, but they are not as free as their bosses and not nearly as free as they might be.

The economic consequences of regimentation are enormous: productivity is undoubtedly much lower than it could be, and the need to translate work, which is boundless, into jobs which are finite, is a primal cause of unemployment. But the most serious consequences are the more urgently human ones. A nation of employees, subordinated to a hierarchy, however restrained and benign, are politicized in the sense that much of their effort must be spent pleasing the powers that be in ways that are entirely unrelated to the work to be done. In a society that is forever boasting of its dedication to democratic ideals, employees are, however affluent they have become, members of a subordinate, unmistakably lower, class.

The regimentation of work has created a political majority whose attitudes about themselves and their world are heavily conditioned by a lifelong habit of subordination – what Hayek has called an “employee mentality”. How can people see the value of independence and self-propulsion when they work in a system in which they are dependent and subordinate? There is little in their daily experience which would cause them to conclude that a society is kept alive by a continuous process of adaptation, led by independent, enterprising people. They are bound to see society as something static – something to be administered. Employed people can scarcely be expected to revere qualities they have been carefully instructed to repress. Instead, they tend to become what the way they work requires: politicized, unimaginative, unenterprising, petty, security-obsessed and passive. Thomas Jefferson, enchanted as he was by labour-saving machinery, still feared that industrialization would produce a breed of working people so altered by daily subordination that they would be unfit for self-government.

Here the problem of the unworkable, unaffordable and untouchable welfare state and the problem of workplace regimentation converge. In America's long march to its particular brand of social democracy, there came into being something Marx could not have anticipated: a working class with proletarian status, but with middle-class means. Now, the overwhelming majority of Americans, in their working-class capacity, consider themselves entitled to an ever-expanding range of social services, which in their middle-class capacity they pay for in taxes they find increasingly unreasonable.

**T**he search for ways to liberate working people from their proletarian status has a long history. Most of the many experiments in workplace reform, accepting the apparent necessity for politicized workplaces, have sought to give workers more political power, and the flaw in this approach sometimes reveals itself palpably when workers in worker-managed plants strike against themselves. But now there is

movement toward more elemental reform which would de-politicize workplaces entirely, make each worker self-supervising and base compensation on some credible estimate of the value each person adds to whatever product or service the firm produces, in effect bringing the principle of the free market into the plant. But without a legitimating rationale, something the libertarians are best equipped to provide, this is bound to be a confused and halting process.

Libertarians, to their enduring credit, believe passionately in the power of ideas. They learned from Hayek that socialism was always and everywhere an intellectual movement before it could become a mass movement – and that any successful anti-socialist effort would have to be built on an unshakeable intellectual foundation. This has been the central article of faith that sustained the movement since it began to rebuild itself in the 1940s and 50s. Libertarians are, perhaps inevitably, something of a joke as political activists – but the communist collapse is evidence of the immense power of an intellectual movement which, just forty years ago, would have fitted into a phone booth. Now history is beckoning from a somewhat different direction, one which many libertarians will find forbidding. The lack of a coherent, comprehensive vision of voluntary community has forced libertarians, unnecessarily, I think, into an individualist emphasis, a suspicious aversion to any kind of communal activity beyond the commercial, in spite of the fact that the libertarian movement is, itself, a voluntary collective with a strong sense of solidarity and remarkable power.

The chronic crisis of the world's social democracies is putting democratic political institutions under increasing stress. We may be in the process of fulfilling the familiar prophecy, often made by some of political democracy's most passionate enthusiasts, that democratic societies are inherently unstable and self-destructive. It seems more than ever clear that the several forms of pluralism are interdependent – that lack of economic pluralism imperils political pluralism and vice versa – and now our two-dimensional societies are showing unnerving signs of instability. It may be that a renaissance of the third, less familiar pluralism – the social pluralism manifested in the institutions of the independent sector – is essential to the survival of the other two; moreover that regimented working people will have great difficulty building and maintaining free societies; and that history has suddenly redefined the task of libertarian scholarship.

I believe Mises himself would have welcomed enthusiastically the continuing enlargement of libertarian thought. Unique among economists, his knowledge of economics was so complete that he understood its limitations. In *Human Action* he said, with his customary clarity, that in the vast spectrum of human activities, economics treated only a slice, those which result in an exchange. Mises knew that economics is the beginning of the inquiry into the nature and metabolism of human action and certainly not the end of it.

---

*Richard Cornuelle's book Reclaiming the American Dream, 1965, will be reissued next year.*