Our underpinnings: a bicentennial view

The 1975 Harvey Cushing oration

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The author describes the emergence of the liberal tradition which is the foundation of the political and economic systems in this country and considers policies that may affect our social and economic future.

It is an honor and high privilege to be here for the 1975 Cushing lecture, and I am grateful for the invitation. I share the deep and pervasive respect for those awesome skills and knowledge represented by this profession, skills and knowledge of which my own family have been grateful beneficiaries.

American Society’s Unease

What I propose to do today is to explore some broad matters with roots in economics but matters which are issues of concern to citizens generally. This seems particularly in order at this juncture in our history. As Americans look out upon the social and economic landscape of their country on the eve of its bicentennial anniversary, there is a deep sense of unease. Surveys indicate low levels of citizenry confidence in a wide array of our basic institutions. In a comprehensive study the Senate Committee on Government Operations found that less than one-third of the respondents to their survey had great confidence in corporations, in labor unions, in the Congress or the Executive Branch of government, or in the press. Medicine was at the top with 57%. Higher education did well with 44% but we were overtrumped by 52% who still had great confidence in local trash collection! It would, of course, be easy to produce quite a laundry list of things that have gone wrong in recent years. These would range from l’affaire Watergate through an almost unrelieved succession of setbacks in foreign policy to our inability for over a decade to sustain the American economy’s historical capability for vigorous growth and reasonably full employment. The word “historical” here deserves emphasis. There is an image of our economy’s performance through history as one of ricocheting from boom to bust as it lurched along. This is not only a poor characterization of our economic record, it is not even a good caricature. The American economy throughout its history has demonstrated a sustained capability for creating new job opportunities, lifting material levels of living, and diffusing the results of this progress more and more widely to all people. Moreover, these were the results to be expected by the inherent logic of our open, market-organized economic system. As a result, material levels of living in the United States have been doubling about every generation throughout our history. This means that two centuries ago at the time of those “shots heard ‘round the world” the average American family’s income, expressed
in today's prices, was roughly $250 per year. And we know that the number of job opportunities in the American economy has doubled about every 45 years.

For all its demonstrated capability to lift material levels of living and to diffuse the fruits of this progress ever more widely, our system is now increasingly on the defensive. Why? This unease reflects, I believe, a deep-seated sensing that our philosophical foundations have themselves been shifting and wobbling underneath us, and that our problems may be far more fundamental than a burst of inflation, a large deficit in the budget, the collapse of our foreign policy, or even that only 92% of the labor force is employed instead of the 95% that would be consistent with reasonably full employment (serious as all of these problems, of course, are).

Social and Economic Development

The problem is that the mortar of common consent concerning what our society is all about has itself been dissolving. And it is essential for us to find a new broad consensus about the kind of game we want to play, or a modern Edward Gibbons will have even more scope than his predecessor two centuries ago for writing a Decline and Fall.

Here some history is in order for, as Churchill once observed, the farther back you look the farther forward you can see. The great ideas that shaped what we might call the basic American system had their origins in liberal thought, largely English, of roughly two centuries ago. Here such names as David Hume, Adam Smith, and Edmund Burke would come immediately to mind, but it would also include such people as, for example, Schiller in Germany, or Madison in America, or de Tocqueville in France. These men were impressed with the fact that England experienced a great burst of cultural and economic progress following upon limitations placed on the powers of the Crown. Could there be a connection between these two historical phenomena? They concluded that there was a logical relationship. And out of their philosophical work emerged the underpinnings of the great liberal tradition in the fundamental meaning of that term that, then, became the foundation for our own political and economic systems in America.

The basic function of government, as these men saw it, was to provide a framework within which the ingenuity and creative powers of all people would be free to operate. This, of course, did not deny that government had certain responsibilities for what we might call collectivized consumption or investment (for instance, national defense), and those who assume that Adam Smith considered the only good government to be a dead government should read Book V of his Wealth of Nations. The basic structure, however, was to be a government of limited powers maintaining the rules-of-the-game framework. Within this framework, then, could be expected to emerge spontaneously a life of far greater complexity, diversity, richness, and sense of self-fulfillment than if government attempted itself to decree in advance the specific patterns and designs and blueprints of the "good life."

Why could this be expected to occur?

For one thing such a liberal system could make use of an aggregate of knowledge and creativity which does not exist in its totality in any one place. A more centralized system, on the other hand, can make use of only that inevitably more restricted span of knowledge which is within the purview of the authorities, the few, at the top. If life is to consist of only what they can see and know and think up and blueprint, only a small fraction of humanity's total knowledge and creativity will be utilized. We see the force of this in the economic domain today if we contrast the pleasure of shopping at a modern U.S. department store with the far more restricted variety of offerings in the dreary atmosphere of GUM's in Moscow, or the equally dreary post office or state liquor store in the U.S.

Second, the basically liberal or free system has an answer to the question at the heart of progress. How can the new and better be made to replace the old? This is perhaps the most difficult problem to surmount in achieving progress for the new and better, and an environment that encourages this probing. In the open and liberal system anyone is free to try out a new idea. This is important. New things often come from the most unlikely sources. Henry Ford was a night engineer at the Detroit Electric Lighting Company. A new concept for a water softener came from a former Federal Reserve Bank official. The cold wave revolution for hair curling came
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from two Twin Cities fellows who had no basis for knowing anything about the beauty parlor industry. Now if the new idea cannot make it, and most new ideas do not, little in the way of social resources has been lost in the probing. If on the other hand it is successful, the rewards can be large in prestige, in fame, and in a material way. It is in short an efficient system for encouraging probing.

Moreover, a liberal or open system is organized to make sure that today's new which is better becomes tomorrow's standard. This is the most difficult aspect of continuing progress for any social system to achieve. The liberal, open system has a logical answer, and it achieves this by allowing customers in open markets to express or vote their preferences (whether the "product" is a new widget or a new art form). If they like the new, through the pressures of competition it prevails no matter how much it might be opposed by the Establishment who seemingly "ought to know best" about such things.

The liberal free and open system, in short, provides a logical process for achieving continuing disestablishmentarianism. The Establishment will always tend to oppose progress, not only from selfish venality, but out of a sincere inability to believe that the new and different could be better. Thus railroads did not emerge from steamship companies, the automobile age was not ushered in by wagon and carriage makers, diesel locomotives were not even pioneered by steam locomotive manufacturing companies, and professors have been known to resist new material because their old and well-rehearsed lectures were more comfortable.

If the Establishment controls the introduction of the new, the processes of progress will inevitably be arthritic. This is a key problem of state-organized economies today. If the ministry of Locomotive Manufacturing is responsible for locomotives, it is the Establishment, and it will have the usual establishmentarian bias against new-fangled ideas. However avant garde these state-organized systems claim to be ideologically, in their operational realities these economies are ultrareactionary. Perhaps the academic analogue is that faculty members who pride themselves on their avant garde thinking are often ultrareactionary when it comes to changing the curriculum.

It is, therefore, not surprising that these illiberal, state-organized economies inherently cannot provide the richness and diversity of new and better consumer goods and services for the people that the liberal, market-organized economic systems offer. They can build steel mills, construct dams, or wage war, but the one thing "peoples' economies" inherently cannot do well is to be sensitively responsive to the wants and needs of people themselves. The logic of their structure makes this result inevitable, and the result is dramatically clear to all who are willing to look. The Berlin Wall, for example, was not erected to keep the people in West Germany's liberal economy from escaping to East Germany's state-organized economic system. Refugees in Viet Nam fled south, not north.

Now this liberal philosophy was, of course, the American historical tradition. It was the original philosophical underpinning of our social, political, and economic institutions. It saw progress as something to be achieved in a free, or liberal, system where performance rather than political pull or family would be the route to success.

Decision-Making in a Democratic Society

The stream of philosophical liberalism, however, has had another tributary. This one traces its headwaters to such men as Voltaire, Condorcet, Rousseau, and Descartes, among others. These men also were not happy with things as they were, but they believed that pure reason by deliberate design could lay out the ideal specific patterns or blueprints of the good society. It was democratic in concept, in the sense that the government should be democratically chosen. This government should then use its power to achieve or implement what pure reason would declare to be Good. The leaders of the French Revolution were greatly influenced by this thinking. In 1774, the Committee of Public Safety declared: "You must entirely refashion a people whom you wish to make free, destroy its prejudices, alter its habits, limit its necessities, root up its vices, purify its desires."

Now the theories of progress embedded in these two philosophical traditions have major differences, and a few are worth some comments. For one thing they differ about the ends to be achieved. What we might call the British tradition (although we might more
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properly, in view of its “founding fathers,” call it a Scottish tradition) saw the good society or the good economy emerging spontaneously through the expression of individual preferences and creativity within the framework of a government of limited scope and power. The continental tradition, as we have mentioned, saw the good life in terms of explicit designs and blueprints, with the power of government used to achieve them. The good life would then be the collection of these explicit social or national objectives, programs, and patterns of living, not the cumulative results of spontaneous creativity whose precise patterns inevitably could not be specified in advance.

A second fundamental difference is that while the two traditions of liberalism both subscribe to the concept of political democracy, they differ sharply about the proper scope of government. The British tradition emphasized government of limited scope while the French or continental tradition would see no particular limit to the scope of government if it is “democratic.” It is not surprising that the latter has led almost inevitably to a diminution in personal freedom. The operating principle of majority rule in government does tend to mean in many areas of life that the minority also will have what the majority want. That is presumably a better principle than that all must accept what only a minority wants (as in a monarchy or dictatorship).

This majority rule is, however, vastly less responsive to the diverse wants and preferences of people than a system that enables each person more nearly to devote his life to the ends that to him seem good. This is precisely what the liberal economic and political system in the basic sense can do. One person can have a Cadillac while another prefers a Plymouth and the neighbor across the street, not much interested in cars at all, spends his money on hi-fi equipment. In a market system we see some families drive Chevrolets, others Fords, still others Gremlins or Audis or Datsuns or one of a wide array of other choices. Metaphorically speaking, in a system organized according to the alternative continental tradition of liberalism, we would all drive Chevrolets; moreover this would be a “democratic” decision because Chevrolet would receive the most votes in the referendum on “our national automobile purpose.”

The alternative or continental liberal tradition will, however, tend in fact toward requiring for all what only the minority want. Even in a democratic government properly elected by majority vote, its actions will tend to be the aggregate of what strongly-focused and highly vocal interest groups want, and this can be and often is at substantial variance from the welfare of the inchoate and unfocused majority. The Jones Act, requiring that cargoes between U.S. port cities be carried in American ships, imposes unnecessary costs on consumers. The Interstate Commerce Commission has self-evidently ruined the railroad industry and put 50% more trucks on highways than are needed to haul the nation’s truck cargoes. The Davis-Bacon Act makes construction costs unnecessarily high. All of these are inimical to the interests of people generally, but they are actions taken by democratically-elected governments in response to pressures from strongly-focused interest groups for whom these items are intensely important, and they are not apt to be changed. Indeed, it is doubtful if in the Congress the pertinent committees would even be willing to hold a hearing on the subject of repealing the Jones Act or the Davis-Bacon Act or abolishing the ICC.

Enlarging the proportion of economic activity in the public sector inevitably, therefore, tends toward a society forced to organize into pressure groups that crunch and grind against each other. And the thing that gets pulverized is the general interest of citizens who want to live their lives in their own way and not as faceless members of a pressure group to which they have surrendered their individuality.

Finally, the two traditions do carry with them different implications about ends and means. The basic British-American liberal tradition does not proclaim in advance the explicit design for the good life, the end, but it does emphasize the right process for achieving the life of self-fulfillment. Government, to repeat, should provide the framework within which, from the spontaneous effects of individual creativity and preferences, will emerge a pattern of life of a richness that could not have been blueprinted in advance. It pins its faith on the emergence of the right end if the right means are used, and it is confi-
dent that the end results will contribute more to human welfare than government using its powers to achieve specific designs determined in some sense "at the top" to be good.

The continental tradition, placing more emphasis on specified end results, does have certain obvious advantages. It seems to sound more purposeful. It lends itself to stirring rhetoric about "organizing ourselves for a great national purpose" (being silent about whose concept of purpose is great). The nation would then "control and direct its destiny" (that destiny being the one preferred by those who decide on the blueprints). We would not be subjecting ourselves to "haphazard results through blind chance." These are pejorative terms for what the inchoate majority of people prefer.

Stripped of its beguiling rhetoric, this so-called continental philosophy cannot proceed far without starting to involve some unexpected and even uncomfortable implications. For one thing it leads to a blueprinting of the ends of life that turns out to be restrictive and simplistic. It sees the blueprint for an elegant urban life, for example, to be people transported via mass transit along corridors of high density. In that way urban sprawl and highway congestion are eliminated, and after all, aren't they bad? Isn't it obvious that a ton of humanity can be transported more economically if containerized in mass transit vehicles? The answer is that it is another "obvious" but by no means necessarily correct assumption. And with high-density living more of the earth's surface could remain in meadows, and isn't that Good?

Those representing the position of fundamental liberalism, on the other hand, take a more complex view of these matters. Life is more than a few square feet of domicile, or being transported to and from work economically. The automobile gives transportation but it gives something else much more important: freedom for the individual as a person. And people prefer those homes contemptuously called "urban sprawl" for reasons far more fundamental than to have places for bed and board that fit into some predetermined blueprint about the way the planet should look.

Moreover, this alternative or continental philosophy of liberalism cannot be carried far before it gets uncomfortably close to the ends justifying the means. If a specific, predetermined end result is the Good, then what moves us toward that end is good, and what impedes movement toward that end is bad. Personal freedom, it can then be argued, should not extend to the point of allowing people to go in the wrong direction, to commit error.

The Liberal Economic Order

This nation's heritage, of course, traces its intellectual lineage from what has here been called basic or fundamental liberalism. There may even be a few here who, like Molière's character in Le Bourgeois Gentilhomme, have been liberals all your life and did not know it. It is equally clear that what might be called American liberalism in the modern vernacular is intellectually more a lineal descendent of the continental or French variety, and it does dominate American social and economic policy today.

How did this metamorphosis come about? The explanation is complex, but three sets of factors have played an interacting and syn-ergetic role. One is the wide-spread assumption that the institutional machinery of the market-organized liberal economic system broke down. This was Lippman's explanation in his lucid "The Good Society" written four decades ago. The Great Depression would be cited as evidence. Actually it was not the failure of our economic institutions but the failure of national economic policies during the early 1930's which caused the collapse of 40% of our banks, that produced the Great Depression through a monetary dehydration of the economy. While this was a failure of government policy, it was incorrectly perceived to be an indication that the liberal economic order itself was found wanting. And the inevitable conclusion drawn was that government must take a more overt role in guiding the economy to achieve proper objectives. This may well be the most dramatic case, though not the only one, of where a failure of government, through a sort of intellectual inversion, became the justification for further extending the scope of government.

Second, the alternative or continental philosophy of liberalism throws the bureaucracy and the intellectual community together in a powerful interest group with a heavy stake in the extension of programs in the public sector. Naturally those of us in the
intellectual arena assume that if our national objectives and blueprints are to be the product of pure reason, we will have a dominant influence about what those objectives and blueprints are to be. And since thereby affluent job opportunities are opened up in the "socially desirable" programs, we (the intellectuals) determine the ends and give ourselves remunerative employment at the same time.

Finally, we have become less certain that a society reflecting the principles of a liberal economic order, in the basic sense, would be a just society in any case. The simple Protestant ethic of insisting on performance as the route to the top, with equality of opportunity for all at the starting line of life, was a great step forward beyond the system of royal classes with inherited prerogatives. And the enlarged responsibility of the individual for his own life and destiny was a further spur to effort and accomplishment and also to a sense of self-fulfillment in life. And we had assumed that universal education would provide true equality of opportunity once the great national shame of racial discrimination was eliminated.

Now we are finding that it is not all quite so easy and automatic. The children of families in this room have the advantages of stable family structures, emphasis on education, and probably through the accidents of genes and chromosomes above-average IQ's. Compare this with the life facing an inner city child whose mother could not even be sure which of a considerable list of possibilities was the father. To the inner city child the advantages of our children, who had no more to do with where they were born than he did, look like hereditary privilege reincarnated. This has led to growing emphasis on equality of results as the blueprint of the good society, rather than equality of opportunity once the great national shame of racial discrimination was eliminated.

Now no one can argue that one tradition of liberalism is wholly good and the other is bad. Explicit thought about ends and objectives is clearly an essential requirement for orderly progress, and the American political and economic landscape can be richer for our having been influenced by both philosophical traditions. At the same time there is reason to be concerned about whether we are now experiencing an imbalance, as our political and social processes have tilted too far toward continental liberalism and too far away from the basic, fundamental liberalism that was this country's underpinning. It is seriously raising the question as to how much more of the individual's freedom to live his life in ways that to him seem good is to be given up. It is clearly giving us a division of our economic pie that allocates a larger share to the public sector than would certainly be consistent with citizenry preferences. From 1969 to 1974, for example, the rise in nondefense government spending (Federal, state, and local) was equal to 46% of the rise in national income, and with certain so-called off-budget government programs included (as they should be) the figure rises to 52%.

The growing scope of government power also does tend at best toward a tyranny of the majority. It is as if at a restaurant the diners vote to see what the pièce de résistance will be. The fellow who doesn't like the result must at least admit that it was all done democratically. By contrast, in the market-organized economic system one diner can have steak, another pork chops, and another ruefully sticks to his lettuce and water diet. The liberal economic order in the basic sense, in short, permits a more sensitive deployment of productive resources to serve the diverse wants and needs of people as they see them. As pointed out earlier, we actually have a tyranny of the minority, given the tendency for interest groups to have a vastly disproportinate influence on legislation.

National Policy: Pricing, Income, and Ideas

Any attempt to lay out the implications of these developments for national policy would take on the dimensions of another paper, but three brief comments are in order here. A more sensitive concern about sharing equitably the fruits of our affluent economy must be high on the agenda of national policy, but it must not be a cynical Robin Hood exercise through which politicians keep themselves in power by taking away from the affluent to buy the votes of recipients.

What we do need in this country is an explicit, systematic, generalized income maintenance or income distribution program. It should be the analogue of unemployment
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compensation, which steps in and provides income when incomes are too low because of interrupted employment, except that this generalized program should step in when an income is too low for whatever reason.

Failing a systematic and generalized program we expose ourselves to two hazards. We find ourselves with a polyglot array of ad hoc programs that overlap, waste resources, leave important gaps, and generally pauperize recipients. Lacking a systematic, generalized program giving expression to our concerns about income distribution, we then tend also to paralyze our capacity for using the pricing system to do what it does sensitively and well—namely, to guide the allocation of productive resources. There is strong sentiment for price control, in spite of its frequently demonstrated tendencies toward economic arthritis and moral degeneracy, because of what inflation means for those with low incomes. We cannot pursue a rational energy strategy today because pricing energy to be consistent with today’s cost realities would have an adverse effect on those with lower incomes. Concerned about farmers’ lower incomes, a Congress whose members wax eloquent about the high cost of living is contemplating a bill to make it higher by new farm price supports.

If we keep on the present path we shall have a paralyzed pricing system and also an ineffectual incomes program that wastes resources, leaves needs unmet, and violates the dignity of recipients. With a systematic incomes-maintenance program we would have a means of giving expression to our concerns about income distribution, while at the same time leaving the pricing system able to function as the sophisticated communications network for the economy.

If this nation in the year 2076 is to look back with satisfaction and pride at its third century of independent existence, we must also develop more regard for the importance of maintaining competition in the market place of ideas. If national policies emerge out of a rational debate in which all kinds of ideas are given a fair and full and open hearing, we can be sanguine about the results.

Overt government constraints on freedom of thought and expression cannot, of course, be tolerated. Our greatest dangers in the contemporary world are, however, more subtle and complex. They are found in a tendency toward an establishmentarianism even in the world of ideas. This tendency may have intensified as the role of religion has waned and secular and social beliefs, within the organized church as well as outside, have come to be a surrogate for the role formerly played by religious convictions. In any case we see even in universities tendencies toward a Society For the Propagation of the One True Faith. Ralph Nader or Daniel Ellsberg could readily be assured a hearing on most campuses today, as they should be, but the test of freedom in the market place for ideas would come with an invitation to the Secretary of Defense or the Director of the Central Intelligence Agency or anyone else whose views might today be intellectually persona non grata. Could they also be assured an orderly hearing? Indeed, would they even be invited to the campus? Do academic departments have explicit procedures to assure that various points of view and schools of thought are represented? In the media are there explicit policies and procedures to assure full and fair treatment? This is doubly important since economies of scale have brought most cities to a one-newspaper status.

A free society can readily survive monopoly in the market for widgets, but it cannot survive a monopolistic market for ideas. If the competitive market place for ideas starts to erode, we are also starting down the road toward an illiberal society whose people will find their freedoms in jeopardy, and whose capacity to generate economic and cultural progress is beginning to wither.

Conclusion

If today you listened for concrete policies and recommended programs for action, you listened in vain. Our problems do not arise from a shortage of action programs. Whether a century from now people look back on the next 100 years with a sense of satisfaction or sadness will depend far more on whether we as a nation can get our thinking straightened out concerning what this nation and this society should be all about.

Is this placing too much emphasis on what happens in the world of ideas? Just four decades ago the great economist Lord Keynes (then simply John Maynard Keynes) was concluding his great book “The General Theory
of Employment, Interest, and Money." In the final two paragraphs he asked himself if the fulfillment of his ideas in the book would turn out to be a visionary hope. The author of a book that revolutionized economic analysis and policy gave his prophetic answer when he then observed that "the ideas of economists and philosophers . . . are more powerful than is commonly understood. Indeed the world is ruled by little else."

References


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