The Henry Simons Lectures

The Law School recently inaugurated a new biennial lecture series, the Henry Simons Lectures. This series has been established in recognition of the contributions of Henry Calvert Simons (1899-1946) to Political Economy, and as Professor of Economics in the Law School from 1938 to 1946. Professor Simons' essays are collected in Economic Policy for a Free Society, University of Chicago Press, 1948. His major work in the field of taxation is contained in two books published by the University of Chicago Press: Personal Income Taxation, 1938, Federal Tax Reform, 1950.

The first Simons lecture was delivered in February by George J. Stigler, Professor of Economics, Columbia University. The lecture, entitled "The Goals of Economic Policy" is to be found in this issue of the Record. A reception and dinner honoring Professor Stigler were held at the Quadrangle Club prior to the lecture.

THE HENRY SIMONS LECTURE

The Goals of Economic Policy

By GEORGE J. STIGLER
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I prize the privilege of delivering the first of a series of lectures which will commemorate the work and character of Henry Calvert Simons. My pleasure is not in the least diminished by the conviction that he would have protested at the suggestion of such a series of lectures—perhaps likening them to the rigid, weathered structures erected to military heroes, with the lectures sometimes bearing a sufficient resemblance to the nervous, edible birds which hover about them.

And in one sense he would, of course, be wholly right: the real tribute to a scholar is the continued life of his intellectual work, and no amount of praise periodically heaped upon dead ideas will warm them to life. The work of Simons has received this tribute; it continues to be in the center of a main current of political economy which he did so much to create, and today his thought is as relevant and as far-sighted as it was in the moment at which it was written. From this viewpoint, the highest compliment one can pay a scholar is to quarrel with him or to go beyond him, and I am absolutely certain that Simons would second my invitation to future lecturers to exercise the privilege more freely than I shall.

But in another sense, Simons would have had no right to protest the establishment of these lectures for they honor something that belongs to his friends as much as to him: his character. This wondrously complex man, of exalted integrity, brilliantly witty, exquisite of taste, generous toward others and unreasonably demanding of himself—this man we are entitled to honor, and without permission. I interpret my lecture, not as a tribute—he deserves much better than he will receive tonight—but as a reminder to the world that we continue to love our friend.

I shall speak tonight on the proper goals of economic policy.

Three goals have long dominated economic policy in this country, and in the Western World. The first and most ancient goal is the largest possible output of goods and services. Maximum output has evolved, under the impact of social events and economic analysis, into a two-pronged goal:

First, to employ as fully as possible—that is, as fully as the other goals allow—the resources at the society's disposal. Unnecessary unemployment of men and capital should be eliminated.
Second, to employ these resources as efficiently as possible. Broadly speaking, no resource should be used in one place if it would produce more elsewhere—it should be impossible to reshuffle resources to achieve more of some goods without getting less of others.

The second goal is the growth of the economy. Natural resources should be prospected, capital accumulated, and new products and technologies discovered. These forward looking activities have for their common end a steady rise over time in the level of income relative to population.

The last primary goal of economic policy is a comparative newcomer, still a vague sentiment when maximum output had been entrenched for centuries. It is the reduction in income inequality. The goal of equality, or at least of much reduced inequality, has become one of the great forces of our times.

These three goals, maximum output, substantial growth, and minimum inequality of income, have provided the justifications for every important innovation in economic policy. Maximum output is the purpose of our free trade within the United States, the combatting of monopoly, and various antidepression measures. The growth of income is intended to be served by our various conservation measures, much of public education, our public land policy, and the current flirtation of the federal government with basic research. Minimum inequality is the goal of the personal income tax, agricultural policies, public housing subsidies, unemployment insurance, and a host of other policies. Of course I simplify when I identify a policy with only one goal—it is a poor protagonist of an economic policy who fails to argue that it will serve all the goals of economic policy, and that it is also wholly in keeping with the Scriptures.

There are, to be sure, a variety of minor goals of policy. The desire to eliminate racial discrimination has led to certain regulations of economic life, and again, the desire for personal equality of treatment independent of income has led to other regulations, such as prohibitions on personal railway rate discrimination. But these goals have had only minor and sporadic effect upon economic policy.

One need hardly emphasize the obvious fact that many of the policies we have adopted have ill-served any of these goals. The farm program was adopted to help a class of families with low average incomes and possibly to conserve resources, but quite probably it has increased income inequality, at least within agriculture, and it is extremely doubtful that any useful conservation of resources has been achieved. The tariff was presumably designed to increase domestic output, but economists believe it has never been an effective policy to this end. There have also been plain raids on the federal treasury, such as the silver purchase program, which have only the most tenuous connection with the goals of policy. But every society makes mistakes in achieving its goals: often it misunderstands the efficacy of a given policy in reaching a given goal; and often the announced goals are merely cloaks worn by particular groups seeking particular ends. These aberrations and deceptions do not constitute a contradiction of the primacy of the goals of maximum output, substantial growth, and decreased income inequality.

A question that can be raised with respect to basic goals is whether they are fully attainable. I would say that they should not be. An abstract goal gives direction to economic policy, just as the North Pole gives direction to a compass, and just as the compass becomes useless at the magnetic North Pole, so the goals of policy lose their value as guides once they are fulfilled. Specific goals, such as so many television sets or highway miles or dollars of tax receipts, must usually be realizable, but general goals should not be fully realizable.

Whether one accepts this position or not, I think it is fair to say that at the present time the basic goals are widely believed to be tolerably well fulfilled in the United States.

Consider income inequality. Few people think that the progression in the personal income tax is seriously insufficient and many think it is excessive. Public sympathy for groups traditionally viewed as disadvantaged, in particular labor unions and farmers, is at low ebb. It would be wrong to say that "underprivileged classes" has been deleted from the lexicon of neo-liberalism, but the concern for them has lost urgency and to some degree has been supplanted by concern for the peoples with highly developed desires in underdeveloped economies.

The satisfaction with the productive performance of the American economy is even more complete. We feel rich. We believe that on average we are denied only luxuries over whose absence no one can wax indignant. It is true that the workingman still has only a black and white TV set, and his car is several years old, but so what? Who really cares whether a farm program, or a river and harbor pork barrel, wastes a billion dollars, or less than one day's output of the American economy? Who believes that the rate of growth of income is seriously inadequate, or that unemployment of resources in recent years has been grievously large? Even the critics of the Thirties have been silenced or turned into flatterers. In as populous a nation as ours there still exist critics of the productive performance of the economic system, but they are in the uncomfortable position of criticizing the form of a golfer who wins all the tournaments.

This sense of prosperity, I am certain, is a temporary thing. The postwar growth of consumer real income,
compared with 1932-45, has been so sudden and so large that we have not been able to build up new desires, but they are gradually emerging. That celebrated axiom of economics, the insatiability of human desires, has survived the much greater increases in real income achieved at earlier times. In another decade or so we shall be complaining, and with sincere pain, of the widespread need to satisfy elementary decencies such as a summer cottage, the electronic range, the wholly air-conditioned house, and the family psychiatrist. But for the moment we are well off.

Not only should the basic goals of economic policy be unattainable—they should also be part and parcel of the civilization of a society. Ours are not. Our basic goals are the same as the basic goals of the Russians.

The Russians also believe in equality of income. Their fundamental ethical claim, indeed, is that they will remove all income differences not strictly justifiable by social performance and/or need, and in particular will not allot any part of income to a class of private owners of the means of production. I would quarrel violently with their belief that private property is not a basic institution of economic progress, but the argument is being settled for many people by the substantial growth of output of the Russian economy. We may also argue that the inequalities of income in Russia are large, and not so closely related to social performance as our own inequalities. Important as these questions are in assessing the extent to which a society achieves its goals, they seem to raise arguments over policies rather than over goals.

And the Russians share the goals of maximum output and rapid economic growth. Indeed every society that is purposive and non-traditional seeks to do efficiently whatever it seeks to do. The differences among societies arise with respect to what output they seek to maximize. In our society the output to be maximized is chosen primarily by the individual consumers; in the Russian economy the output to be maximized is chosen primarily by a central, dictatorial body. Hence, the Russian desired output contains more munitions and heavy industrial equipment, as a share of total output, than the American desired output, but this again is a difference in content (of immense importance, to be sure) rather than in goal.

Now, I do not wish to imply that a goal loses validity because it is shared by an unfriendly person. It does not seem sensible to abandon Mozart simply because one encounters a boor who also admires his music. And to spurn a goal such as maximum output is to spurn rational behavior.

Nevertheless, the fact that our economic goals are the same as the Russians' is anomalous: one would expect two great powers to have carried into their economic goals some elements of the political philosophies that lead to their antipathy and rivalry. The fact that our goals and the Russian goals are the same has also contributed mightily to the failure of American foreign policy—a policy which has no cutting edge of political philosophy that might attract the leaders of other countries. We offer the same goals, and differ chiefly in promising less with respect to their fulfillment.

The reason I wish to propose a somewhat different set of goals than those we now profess, however, is not to set ourselves apart from Russia, nor is it to capture the intellectual leadership of the neutral world—although these are not negligible hopes. Even if the United States were the only body of land on earth or in space, we should urgently need to give direction and emphasis to our economic policies. It is high time that we set aside the details of managing a comfortable dormitory and concern ourselves with the kind of society we wish to inhabit.

The supreme goal of the Western World is the development of the individual: the creation for the individual of a maximum area of personal freedom, and with this a corresponding area of personal responsibility. Our very concept of the humane society is one in which individual man is permitted and incited to make the utmost of himself. The self-reliant, responsible, creative citizen—the "cult of individualism" for every man, if you will—is the very foundation of democracy, of freedom of speech, of every institution that recognizes the dignity of man. I view this goal as an ultimate ethical value; others may wish to reach it through powerful utilitarian arguments.

It is one thing for a value to have verbal sovereignty; it is quite another for it to permeate the social system. Individualism has few enemies in the United States, but its many friends are becoming less
fervent and its influence upon the course of events is shrinking at an alarming rate. One would incur ostracism in our universities if he denied that man should be free to think what he wishes, but increasingly he is looked upon as a quaint survivor of ancient times if he believes that man should be master of his fate, even when he bears the main effects of his own decisions. The faith in the individual has been much impaired by a fairly new doctrine, a very old belief, and the changing structure of society.

The fairly new doctrine is that of environmental determinism, which we owe to men as diverse as Godwin and Marx. On an ever-widening scale it is being argued that social institutions mold the character of man: that the food and housing, family, neighborhood, and education of the child have a decisive influence upon the way he thinks and behaves as a man. No one can doubt, in the light of generations of social research, that this theory contains much truth. Its thrust is evident: interest is inevitably shifted from man's exertions to the social environment which to a considerable degree determines the nature and direction of these exertions.

The very old belief is that most men are incapable of conducting their affairs wisely. Only in the nineteenth century did this belief temporarily lose its dominance: at the threshold of the period of universal education it was widely believed that the vast majority of the population could be educated to so high a level of rationality that it could be trusted with the control of public affairs as well as the proper conduct of personal affairs.

Now that the great majority of our population receives at least 12 years of formal education, it is no longer possible to expect great results—one must observe them. And on the whole I sense a growing disillusionment, although direct documentation of this disillusionment is rather difficult to present because the miracle of education still provides, for too many intellectuals, the anchor of their democratic faith and the emblem of their ethical respectability.

If I may judge by my own discipline, however, the skepticism about the individual is reappearing in explicit form. The consumer, according to professional economic literature, is a complaisant fellow, quick to follow the self-serving mandates of Madison Avenue or of a long distance call from a stock broker located just beyond the reach of extradition. This consumer is commonly given only the virtue of consistency, and it is not clear whether his choices are treated as well-ordered because his follies are reflexive, symmetrical, and transitive, or because if they were not, his indifference curves would intersect.

I suspect that other disciplines are becoming equally outspoken, but we may document the declining faith in the individual by something almost as strong as words—actions. Most intellectuals are in favor of increasing governmental control over education (compulsory attendance, certification of teachers, control of curricula and school year, etc.) and of increasing intervention by state and federal governments in local governmental control of education. Yet education is surely the one field in which, if education imparts either wisdom or logical training, one would most confidently expect that increasing authority be reserved to the individual and the small political unit.

The last component of the declining faith in the individual has been the increasing complexity and mutual dependence of social relationships in an urban industrial society. The effects of an individual's behavior upon others become large. A farmer with deplorable sanitary habits may be an affront to humanity; a similar city dweller is an immediate hazard to his neighbors. An eccentric or timid pioneer (if this latter is not a contradiction in terms) bears the main costs of his deficiencies; a similar entrepreneur can throw a thousand blameless men out of work (not very long, however). A man, in short, can be trusted with hostile Indians, but not with friendly citizens.

I hope that I have sketched with some plausibility the causes of the decline in faith in the unregulated and unguided individual, for each contains a good deal of validity. Each has also been much exaggerated. No social research has shown that a man's behavior is independent of his will, or that in our society his potentialities of achievement are rigidly set by his environment. Our trust in education has been a narrow, academic faith, and we have almost forgotten that there are such things as non-academic abilities or that the schoolroom is only one, and not the major, center of education for life. And if our society is growing more complex, it is also offering a variety of opportunities for individual choice quite beyond the
dreams of earlier times.

One can nevertheless concede much validity to the main sources of decline of faith in the individual, and yet not budge one inch from the goal of individual freedom. That men are not independent of their environments does not mean that they should be denied the opportunity of determining their lives, and their environments, as far as this is possible. That education does not turn most men into scholars does not reduce the value of allowing them to make their own wise and stupid decisions. That the increasing interdependence of men calls for a continuing review of their rights and duties is no reason for assuming either that no opportunities for new freedom arise or that conflicts can be settled only by coercion. We shall wish to revise the particular content of individual freedom and responsibility as our society, and as our understanding of our society, change, but always there is the problem—the transcendental problem of all liberal societies—of seeking to enlarge the individual's share in conducting his life. Men are not mere social animals, to be governed into prosperity or tranquilized into non-unhappiness.

Let us return to our traditional goals of economic policy. Two of them—maximum output and substantial growth—are ethically neutral: they could be adopted by a nation of gourmets or ascetics or warriors, by tyrants or by democrats. What ethical content they possess has been introduced, almost surreptitiously, by defining output as that which is desired by free men.

We have placed the main burden of direction of social policy upon the goal of reduced income inequality, and it cannot bear this burden. It represents, indeed, quite fairly one element of the basic value of individualism: humanitarianism, in the form of the desire to eliminate poverty and its concomitants such as malnutrition and unintended illness. Much as we may quarrel among ourselves as to the proper way in which to eliminate such ugly things, all of us wish to be rid of them.

For the rest, minimum income inequality has a very dubious congruence with our basic values. One would fear for the individual in a society where a small group of extremely wealthy individuals had the (monopoly) power to exploit others or the (financial) power to subvert the political process. Neither threat is real or potential: we have too many wealthy people to collude, and too few to exert a directive influence upon political life. The goal of minimum income equality has at best an adventitious, and at worst a perverse, relationship to individual freedom.

The goal of individual freedom does not lead automatically to a cut and dried program of economic policies. Continuing research will have to go into the discovery of the meaning of freedom under changing social conditions and continuing ingenuity of high order will be required to contrive policies which will increase this freedom. It would be much more attractive if I could propose immediately a series of policies which were wholly novel, irritatingly paradoxical, and—after the smoke of battle had cleared—irresistibly persuasive, but in good conscience I cannot.

Precisely because the tradition of individual freedom has been so fundamental to our political philosophy, the most obvious corollaries of it are well known, and these corollaries, like the goal itself, will appear outmoded to many eyes. Yet the implications of the goal are not simply a formalized description of life at some admired date in history: we have never done as much
or as well as we could, and today are doing very poorly.

Consider the policy of competition. This policy has a basic role in striking down limitations to individual freedom and challenging individual capabilities, in better proportioning rewards to efforts. Yet the policy is rapidly losing its popular support and its vitality. On the one hand there is a growing faith—it is no more than this—that the giant enterprise is the home of progress; on the other hand, the argument that monopoly reduces income has little emotional appeal to a rich nation.

If we place a main value on the individual, however, there is no justification for our complacency. Since the War our antitrust policy has drifted into a spiritless action against the more blatant forms of conspiracy and monopolization. While the federal government has been opening up these backlots to individual freedom, it has quietly been erecting barriers to individual action throughout the prairies of economic life, with its paternalistic small business programs and the regulation of competitive industries such as agriculture, motor trucking, and housing.

Our programs to assist distressed industries collide directly with the policy of competition, and they seem to me a clear instance of the abandonment of individual freedom not because it is an obstacle to other goals, but because freedom is not at the front of policy. Should we, as we almost always do, ease the problems of these industries by restricting output, stockpiling it, fixing prices—each a policy serving to decrease the freedom and responsibility of the individuals who are in these industries or who wish to enter them? We can achieve the same humanitarian purpose by helping individuals to move to more remunerative industries and localities by providing educational facilities, informational services, travel grants, and other policies designed to widen their range of alternatives.

When did we last initiate a large federal program to increase the range of productive activities open to the individual, or to enlarge the scope for individual freedom within an area? Recent answers are hard to come by. The question would be just as difficult to answer if we addressed it to the heads of state and local governments, even could we distract them for a moment from such important work as the licensing of scores of trades such as yacht salesmen, exacting oaths from wrestlers that they are not subservive, but mostly imploring a higher governmental level to take over their functions.

We now have innumerable policies designed to protect the consumer, including some that protect him against low prices. Obviously we should help to protect him against those forms of fraud which he does not actively seek out, but should we protect him against unwise behavior? If we prohibit gambling to preserve him from moral weakness or actuarial myopia, should we not also supervise his investment portfolio to keep his uranium holdings down to a prudent level? My complaint against such policies is less that the wisdom of a course of action is usually debatable than that there is nothing admirable about an involuntary saint.

The policies designed to influence the distribution of income call for thorough restudy in the light of the goal of individual freedom. The main objection to a progressive income taxation beyond that implicit in the alleviation of poverty is that it imposes differential penalties on personal efforts that poorly serve the goal of inciting each individual to do his best. Almost the only instrumental defense for such a tax is that large incomes are "unfair." The main possible meaning of this charge is that large incomes are not fully earned. When this is true, and the extent of its truth has received embarrassingly little study, why do we not deal directly with the institutions which give rise to large, systematic, and persistent earnings beyond what the community believes are just?

The inheritance of wealth may be one such institution. The right to unlimited, or at least very large, bequest has customarily been defended in terms of its effects upon the donor, with very little consideration of the possible effects on the donees. It has traditionally been argued that the donor is led to vast exertions and to continued thrift. Yet the need for relatively free bequest to stimulate large efforts is surely debatable: we find that men also make immense exertions in areas such as politics, the arts, and the sciences, where the chief legacy of a highly successful man to his son is an inferiority complex. On the other hand the large inheritance of wealth probably has the effect of reducing the incentives to the heir to exercise his full capabilities—he has received
the gold medal at the beginning of the race. Since there are precious values in the family itself as an institution, we cannot eliminate all gifts (let alone intellectual gifts!) and bequests, but it may be advisable to tax inheritances (including gifts during life, but not estates) much more severely than we already do.

These comments on policies are highly tentative, but I hope that they are sufficient to indicate that a thorough-going philosophy of individual freedom and responsibility would lead to programs that are neither consistently "radical" nor consistently "conservative" by our present standards. We do not have such a thoroughgoing philosophy at present: we have been content to defend the freedoms of the individual once or twice a year, when the attack on them is unusually direct and brutal, and complacently design our policies in complete neglect of this goal the remainder of the year. No one has a greater responsibility than the university community, which is among the chief beneficiaries of a regime of freedom, for reviving faith in this goal and for developing its implications for economic, and in fact for all social policy.

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extra income or an avocation or a sop to an idealism "for which practice leaves no room," nor even one expression of a richly-living man's desire to ride a two- or four-horse team. But the price for these conjoint advances came close to being as great as the gain. Both the courses and the full-time teachers were concentrated on the rules and fields of law, "positive" law, the rules largely as they stood at the moment, indeed dominantly the rules "of substance." There was some reason for this. The rules and fields of our law were in chaos; they cried for organization. And one can understand the initial neglect of the crafts if the school was to provide, reliably, precisely what apprenticeship did not so provide.

How Chicago Teaches Craftsmanship

Less justifiable and more unfortunate was Joseph Story's influential curriculum at Harvard concentrating on his straight "private" law, cutting out that whole perspective and background of philosophy and of national and international governmental practice which had laid the foundation of such lawyers as Hamilton, Kent, Calhoun, Webster and indeed Story's self. Harvard itself is still laboring on the needed recapture of what Story butchered out, but like every first-rate school has long been at that job; the law school at Chicago, the entry-port by which Administrative Law and Theory of Legislation came into the American law school world, was founded with the objective of such recapture.

It is also difficult to understand why, as the law schools all over the country became parts of universities, they so long and persistently shut their eyes to their duties of the exploration and inculation of the principles of craftsmanship. With the waning of apprenticeship the arts of the legal crafts slipped into the forgotten or into disrepute; either they were wholly neglected or they were seen in terms not of deep truths about man's nature and man's life with his fellowman, but as matters of shallow and often ignoble artifice and trickery. Yet the arts of law are not only essential to any professional work, they are also law's common ground with those humanities which are a university's core and pride, and among which law should stand with the proudest.

When the arts come to be slighted the answer does not lie in shunting the responsibility, turning for example as Columbia just proposed to an entrance test in writing. The job is instead to develop in the student rough carpentry and even skill in writing—in legal writing, which as it ranges from statute and document through to the brief and the negotiating letter runs the gamut of all kinds of writing there are, outside of formal verse. This is not hard to do, nor is it hard, as one works in the instruction for accuracy and conciseness and simple structure, to press also for life and style. The brief, for example, and the statute, provide teaching apparatus unmatched by the arts college. But the job does take conscious thought, and some effort.

Theory and Workshop Instruction Go Hand-in-Hand

That thought and that effort Chicago finds time for on a scale not matched in this country, readily, if at all. Hand in hand with it go theory and workshop instruction in such basic crafts as advocacy and counselling—each viewed whole and as a discipline, with details of substance used as a good case-book uses cases: to inform discussion and raise questions more than to purvey information. The reference here is not alone to the elementary composition which results for every student from his first year tutorial research. It is not alone to the counselling experience available in the school-run legal aid work, but to the sustained theory-and-practice of such a "course" as "Commercial Law Practice," not alone to the general moot court system and competition which is paralleled in many schools, but to the developed theory which lays the basis of the workshop "course," "Legal Argument." Similarly, in the area of legislation, there is not alone the universal introduction by way of second-year tutorial work, but the basic theory that underlies each of the three or more seminars in current legislation.

Three of Chicago curative procedures on the side of perspective and vision call for particular mention. As