

COMBATING “SOCIAL” FALLACIES

Remarks introducing *Liberale Vernunft, Soziale Verwirrung*

27 January 2009
Zurich

Anthony de Jasay

Some ten years or so ago I had the honour of giving a talk at a meeting of the Liberales Institut. Some of you who happened to be there at the time may remember the idea I had put forward. It was that ideologies that survive have an *immune system* by which they defend themselves against dilution, infiltration and infection by the virus and bacteria of incompatible doctrines. They do this by dogmatism, education and propaganda at all levels of opinion from the academic to the popular, and sometimes even by violent means. Leon Trotsky who kept contaminating the pure orthodoxy of the Marxism-Leninism of his day, undermining the “socialism in one country” thesis, was killed with an ice pick by Moscow’s emissaries in 1940 in his Mexican exile.

Liberals have never learnt the defensive reaction of killing doctrinal adversaries with an ice pick. I do not advocate that they should have. But their extreme tolerance of opposing views has often taken the form of outright appeasement and of being too easily colonised by proto-socialist thought and policy – notably by redistribution to “correct” natural distributions, and by egalitarianism. Both these have been assimilated and are today widely considered as integral parts of “liberal democracy” or what in American English is, with breathtaking cheek, simply called “liberalism”.

The immune system of liberalism is as weak today as it was ten years ago, if not more so. The purpose of the book that we are presenting today is to make a contribution, however small, to making it more reactive, more combative. I should dearly like to see it adopt the best defence which, of course, is attack. On taking the counter-offensive, I should also like to see it use the weapon and the mode of combat that gives liberalism an advantage over its adversaries: cold analytical reasoning instead of rhetorical appeals to “values” and the emotions they ignite. Rhetoric about the love of freedom, free enterprise and individual responsibility *will never beat* appeals to “positive rights”, fair shares and social solidarity. But demonstration of the faulty logic or the brazen arbitrariness that underlies these slogans may beat them, not so much in the minds of the general public, but in the minds of those young academic teachers and journalists who will be decisive in shaping the minds of the general public of the future.

Let me indulge here in a brief digression about retreat and resistance in the domain of words. American English has expropriated the word “liberal”. It uses it to signify a mishmash in which “lifestyle” must be absolutely free, subject to no rules of common decency and traditionally agreed norms of good taste, while “economic” freedoms are subject to mild contempt and irony (“free choice between two dozen flavours of ice cream”) and subordinated at every turn to labour union privileges, eminent domain, public interest, “positive rights”, equal access and the administrative regulation of markets. The “liberal” of English English is replaced by “conservative”. Before this linguistic occupation of their ancient terrain, some liberals started to call themselves “libertarian”. This conjures up images of wild devauchery, emancipation from authority, might over right and much else that gives honest citizens goose-pimples. It is doing liberalism no good. Other liberals have opted for calling their creed “classical liberalism”. This term is perhaps the worst of all. It is instinctively understood as the opposite of “modern”. It is outdated, fuddy-duddy, 19th century, nice enough and worthy in its own limited way, but not up to the “great challenges of contemporary society”.

The point I am trying to make is that retreat and peaceful acquiescence in the colonising infiltration of alien notions does not pay. It does not pay at the level of language any more than at the level of judgments of value and the finding of facts. The order of the day should be to resist and counter-attack.

My book that seeks to resist and counter-attack against *soziale Verwirrung* with what I think is the far superior weapon of *liberale Vernunft*, deals principally though not exclusively with three major fallacies. Each has become deeply embedded in public consciousness, repeated as a mantra and treated as moral and practical imperatives beyond reasonable doubt. They are the Social Market Economy, Social Insurance and Social Justice.

I shall briefly try to show that they are fallacious.

The idea underlying the social market economy is that the free market efficiently produces a quantity of goods and would distribute them in a certain pattern among the economic agents who produced it, but that this distribution can be made morally and practically better by making it more “social”. This can be done by interventions that do not react back on the productive functions of the market, leaving it free and untroubled. In addition, the economy yields a bonus, so that total production is not only (morally) better distributed, but also greater than it would otherwise be; for in the social market economy, relations between employers and employees are more peaceful, less antagonistic and hence more productive than in a mere market economy.

Let us deal with the minor issue, the bonus, first. History provides only meagre lessons about why social upheavals happen and how they are prevented, but

such lessons as it does give tell us that revolutions happen after oppression is relaxed and social order is disrupted more by the appeasement of tensions than by the tensions themselves. Concessions to the weaker party teach it that it is entitled to concessions, and will demand more. Industrial relations tend to be worse and strikes more prevalent under heavily redistributive left-wing governments. There is not the slightest evidence that the rise of the welfare state was conducive to industrial peace and productivity, let alone that it “saved Europe for capitalism” after World War II.

The major thesis of the social market fallacy is that production and distribution are somehow distinct from one another. The purest form of this gross error is the slicing-the-cake simile to which it is often reduced in its popular versions. The social product is the cake, it is all ready, baked and now it is up to some social consensus to decide how to slice it, how big a part to give to labour, to capital, to management etc. Indeed, it sounds plausible that the cake is baked first, distributed afterwards. J. S. Mill was the first to plant this fallacy in the popular mind. For in fact production and distribution happen simultaneously and are interdependent. Who gets what part of the cake is decided while it is being produced (and partly before it). The reason why each factor of production takes a part in baking it is that by contract or tacit custom it is promised to get a certain slice of it. It is this promise that is being broken when the government, inspired by the naïve idea of the “social market”, overrides the distribution that had induced the cake to be baked by a redistribution once it has been baked. But *this* cake cannot possibly be the same as the one that *would have been* produced if the promise of free market contracts and thus market-determined wages and profits, had been and could have been expected to be kept.

As a last-ditch defence of the “social market”, its more sophisticated advocates might admit that the cake called into being by redistribution may well be a bit smaller or taste less well than the one that would have been produced in response to the natural distribution. But this probable shortfall, they argue, is the price we pay for making the distribution, more equal, hence morally superior. The moral superiority of a more equal distribution is an affirmation that is perfectly arbitrary, a bluff waiting to be called. It draws its force from the confidence with which it is announced. An attempt to derive it from something deeper and less subjective than itself is the recourse to arguments of social justice. That is the third major fallacy, the third sacred mantra challenged by *Liberale Vernunft*, *Soziale Verwirrung* and I will turn to its brief analysis before winding up this talk.

In second place among my triad of perpetually repeated social mantras is the idea that society is a good thing if and because it functions as a mutual insurance association. It protects everyone from life’s unforeseeable ups and downs by indemnifying the losers out of the gains of the gainers. The association, being mutual, is programmed to break even; everybody has a random probability of being a gainer and paying a premium or being a loser and collecting compensation. Since losses reduce happiness more than gains increase it, everyone is made happier – at least *ex ante*, which is what matters.

The fallacy of this schema resides in the obvious fact that due to different endowments and capacities, some people are always more likely to end up as gainers

rather than losers and others are more likely to end up as losers rather than gainers. Mutual insurance where some always pay premiums and others always collect them is not just, at least not in the sense supposed by the fallacy of society providing equitable protection against risk.

There is, however, a real-life variant of this scheme that we find in most industrial societies, namely compulsory social insurance by payroll deductions. This system, quite apart from its morally dubious premises, is probably responsible for the tendency to chronic unemployment being more prevalent in modern industrial countries than the tendency to excess demand for labour.

In a free labour market, the worker gets his marginal product. This is what his labour is worth to his employer and this is the equilibrium wage. With compulsory social insurance, the employer pays a part of this wage not to his employee, but to the insurance system on his behalf. This part is, with a clever turn of phrase, called the “employer’s contribution” although in effect it is money the worker should have got as part of his wage. From the remainder, the worker, too, must pay for his insurance. This is, with a straight poker-face, called the employee’s contribution (fraudulently suggesting that he is only contributing this part, although in effect he contributes both parts). If this labour is worth 100 and costs his employer 100, the employer pays 20 in his own name and 20 in his worker’s name to the social insurance schemes. The worker takes home 60 and believes that his wage is 80. Some part of this, however, he gets not in cash, but *in natura*, in the form of social insurance. This is harking back to the 17th and 18th century when in some trades workers were paid partly or wholly in goods rather than cash. This system that cheated the workers was repeatedly outlawed and gradually went out of use until it was reborn in Bismarck’s Prussia as a measure of benevolent paternalism. It has, of course, become a standard feature of “social” policy in most countries.

Since cash is always worth more than what somebody else has chosen to buy for you for the same amount, workers would normally prefer to get their wage of 80 all in cash rather than partly in kind, i.e., in insurance. If they realised that their wage is really 100 and they only get 60 of it in cash, they would be very, very upset and would insist that “social” legislation should stop treating them as children. Believing, however, that on top of their wage of 80 their employer is spending a further 20 to insure them more fully, they imagine that the system treats them quite well.

Be that as it may, the final result is that employing a worker costs 100, much of it spent on insurance that the worker at less than 100 and perhaps even less than 80 because however much he may value social insurance, he does not value it higher than its cash cost. Compulsory “social” insurance, which is a wage in kind to the worker, drives a wedge between what the employer pays for labour and what the worker really gets.

This wedge can be justified by the paternalist view that it is better for the worker if some of his money is spent as the state chooses rather than as he would choose. Nevertheless, it remains the case that thanks to this system, insurance is imposed at a cost that is higher than it is worth to the worker. Moreover, the cost of labour is pushed above, and the demand for labour below, the level at which workers

are available for employment. With other things equal, unemployment must become the chronic tendency.

Clear-cut ideas are easy to understand and if false, easy to refute. Confused ideas are the opposite, they are difficult to grasp and almost impossible to refute. One either treats them with a shrug, or one tries to retrieve something from their muddle that is comprehensible and therefore refutable.

“Social justice” is an archi-muddled notion. It would take a disproportionate time and space to reduce it to something clearer. The main reason for its incomprehensibility is that it calls itself justice but never sets out its rules. If it had rules, there could at least in principle be a state of society one could call socially just because the rules were all obeyed, or unjust for a particular reason because one particular rule was disobeyed. But logically social justice can never be said to prevail, but can always be said to be lacking.

One could just bat the notion away as meaningless. One could instead more politely take some tolerably clear idea that is in an albeit obscure way part of the social justice cocktail (without being the whole of it) and come to grips with that. I think equality might be such an idea. Whatever else it is, social justice must have something to do with equality.

Let us suppose, for simplicity, that a distribution of good (and also bad) things in a society can be chosen at our will. Ought we to choose equality or inequality? There are two logically equivalent answers: “there ought to be equality unless there is a sufficient reason for inequality” and “there ought to be inequality unless there is a sufficient reason for equality”.

If we do not know what the distribution actually happens to be, there is no more reason to assign the burden of proof to one answer than to the other. “Prove that there is a sufficient reason for inequality (and if you fail, there shall be equality)” is just as valid as “prove that there is a sufficient reason for equality (and if you fail, there shall be inequality)”.

We may then either toss a coin or resort to some less admirable decision rule, such as voting or prejudice.

However, in the real world, there are a thousand and one reasons why distributions are unequal. There is none for equality that would cancel all the ones that make for inequality. This being the case, it would be fatuous to assign the burden of proof to the side of inequality. The only reasonable logico-epistemological conclusion is that it is for the egalitarian to show why there should be equality. It is no good to say “because God created all men equal” because He did not.