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Liberty and Progress

An obvious truth—confirmed throughout history (especially contemporary history)—is that all setbacks, crises, or underdevelopment suffered by the peoples of the world have been due to a single cause: the uneconomic use of resources—human, natural, or man-made.

Recently, and even more so today, the increased mobility of resources made possible by a marvelous global transportation network has allowed countries without major natural resources—such as Switzerland, Japan, and the Netherlands—to prosper admirably. Meanwhile, other countries with abundant natural resources—such as those in Latin America, Africa, and Asia—remain underdeveloped. This indicates that progress is not the exclusive domain of large countries rich in natural resources.

The only cause of backwardness and underdevelopment is poor allocation and use of resources, so it is important to determine the reasons behind this tragic mistake. And it is indeed a mistake rather than the result of deliberate actions by people in responsible or influential positions (in and outside of government) in underdeveloped countries. In other words, those countries that have failed to raise the standard of living of their inhabitants.

The misallocation of resources is due to a lack of understanding of how the market functions; that is, the mechanism of prices. People do not recognize that government interference in the price structure results in terrible distortions and losses. Once the price structure has been distorted artificially from outside the market, all of the society's economic actions become distorted and uneconomic.

To clarify, one example will suffice. Suppose you are going to build a house and let's imagine that you will use Q10,000 in labor and materials.

But the prices for the labor and materials will be altered arbitrarily: some raised, others lowered. You will have to make all of your decisions based on distorted prices. Construction stops when you have spent the total amount measured in real prices.

What resources will you use and in what proportion? Are you going to build the walls with cement blocks, brick, reinforced concrete, or mahogany? Are you going to build a roof with tiles, cement, or shingles? Are you going to use machines to save on labor or are you going to mix the cement by hand? Are you going to lay tiles or use marble? What size should the house be in order to finish it with the capital you have and to ensure that its value isn't less than the resources used?

Remember that the prices of the materials are going to be distorted. When the experiment is over and you are given the real prices, you will realize that you would have used the resources in different proportions, had the prices been real. You would have employed more of the cheaper resources and fewer of the expensive ones, so that the end result would have been more profitable. The difference in value between the sum of all the resources used and the finished product equals the increase in wealth. If the value of the house is less than the value of the resources employed, you have taken a loss and what you produced is uneconomic. Your wealth is less; you are poorer.

When “the data” (prices) used in a society are false, it shouldn’t be surprising that the end result of all your actions will be in reality uneconomic, statistics notwithstanding. Since all of the economic data that make up the statistics are false, the statistics themselves are useless and they actually contribute to decisions that are even more distorted.

This is not the place to go into explanations about how prices are established. Suffice it to say that in order for prices to be as close as possible to their natural point of equilibrium, it is essential to have the highest degree of freedom compatible with ordered life in society. This means full guarantees for private property and resources, and for the benefits people reap from them. Such guarantees leave people free to trade, produce, consume, and provide services (employment of human resources), without coercion or privileges. All of this is indispensable in order for people to have the means (prices) to act rationally, to assign the use of accessible resources logically. Socialism and a controlled economy are thus excluded from any solution that promotes progress.

I exclude a controlled economy because the only possible justification for managing the economy is to pressure or induce human beings to act **differently** than they would if they were free to follow their own plans, without distortions in the price structure. In fact, the only instrument the government has to induce people to act differently from the way they would choose to act freely (aside from slavery) is through the distortion of prices: tax system, subsidies, price ceilings, minimum prices, development laws, etc.

Of course, for an ordered and prosperous society to exist, government is necessary. So, too, are taxes to finance it. So far, no one has discovered a tax system that does not distort the price structure. But some tax systems distort it more than others. Therefore, the best that we can hope for is a tax system that distorts price structures as little as possible. What is most damaging is what we do when tax systems are designed precisely to distort the economy. This leads to what is called “economic” taxes, rather than fiscal taxes.

Countless serious distortions exist. They spring from the large number of economic and fiscal laws that, while not new, has grown enormously in recent years. We suffer from many direct taxes on consumption that are different for each product. We suffer from customs tariffs that vary for each product, levied according to whim. We establish taxes that prevent industrial development. Then, through development laws, we exonerate some taxpayers while others have to pay. This leads to erratic and uneconomic use of our capital resources. A portion of capital reinvestment in industry is deductible. This encourages investments that are often uneconomic, because if the investment were invested elsewhere, it would be taxed. Progressive taxes are

established, which reduces net earnings on additional endeavors. Fixed interest rates are established, preventing more important uses of capital from displacing less important economic uses. Taxes are raised unpredictably on raw materials used in agriculture and industry, inducing producers to use uneconomic combinations of resources. Different minimum wages for different activities are based on the current yield for each activity, without understanding that such measures nullify the social and economic functions of different yields.

The cause of distortions

It behooves us to analyze what is behind these distortions.

Distortions occur when pragmatism prevails and sound principles are abandoned. Pragmatism is born of impatience. The future ends up sacrificed in favor of the present; when all of a sudden the future arrives, improvisation begins all over again.

This is how redistribution of existing wealth comes to be generally accepted, with no regard for how it is going to affect capitalization and, thereby, productivity and future wealth. It is what happens when politicians are forced to follow the impoverishing path of populism, because their very power depends on pleasing the populace. Morality is abandoned, but theft and even a certain degree of slavery are legalized under the label “social justice,” forcing people to work for others against their will, or seizing from some the fruit of their honest labor to give to others. Everything is legalized through elegantly written laws.

History provides us with sufficient examples of prosperous civilizations that ended in ruin after abandoning moral principles for pragmatism. We see this today in the prevailing and mistaken understanding of democracy as the limitless power of the majority over the individual and the natural rights of the human being.

These comments are not sterile musings. As a sociological analysis they explain the underlying reason for the adoption of systems that prevent the progress of nations. They also explain the decline of prosperous nations, for which we have examples right here in Latin America, as well as in Asia, Africa, and some European countries. Consider, for example, the road that England has taken.

We live in a political world that has proven Aristotle’s prediction time and again: that republic degenerates into democracy and democracy degenerates into totalitarianism. We need to recognize that the current trend has inherent tendencies that seem to exclude self-correction, and so may carry us into political turmoil. We have seen this happen recently in countries that were democratic. The state of affairs became such that under anguishing circumstances, the highly touted democracy was thrown overboard and totalitarianism was accepted openly. It has been proven that people place order, public safety, and economic progress higher than democracy on their scale of values.

Guatemala is not isolated, nor does it hold an exclusive monopoly on this trend. The phenomenon is happening in the United States as well as in the majority of countries in the world. Will reason prevail or will we continue toward the precipice?

It is important that people stop focusing on their own situations and make an effort to understand why a greater degree of freedom is essential for economic progress. It is necessary to abandon the fear of freedom; the issue is freedom under the law, not lawlessness.

Perfection is impossible, given the nature of human beings and society. However, as a tendency, we should aspire continually to perfect liberty. We should remember that the risks and damages we may suffer under liberty are infinitely more desirable than the utopia of economic security that some still believe they can achieve through other systems. We should remember that a free person in society is not free to do whatever he pleases. He cannot sell or buy whatever he wants at whatever price he chooses, because the rights of others restrain him. He cannot use his resources however he wants, because the rights of others restrain him. It is not the case that freedom leads to chaos, as the enemies of freedom claim.

In the hope that we cease to doom our countries to ongoing undevelopment and future totalitarianism, I appeal to you in the words of the great nineteenth-century economist Frédéric Bastiat: “And now, after having vainly inflicted upon the social body so many systems, let them end where they ought to have begun—reject all systems, and try liberty—liberty, which is an act of faith in God and in his work.” In other words, Man.

Translated from the original Spanish

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