

Chapter Sixteen

The Social Organization of Distribution, Exchange and Services

A. Demand-Pull Distribution

We saw in Chapter One that the existing model of artificially expanded market areas and division of labor, overspecialized production machinery and over-capitalization, carries with it all sorts of imperatives like planned obsolescence and a "push" model of distribution--all aimed at maintaining a constant stream of output high enough to eliminate idle capacity in the overbuilt factories. Failing that, it requires the cartelization of industry to permit passing the cost of idle capacity on to the customer through administered pricing. In this environment, Paul Goodman observed,

...the most efficient technical use of machinery is self-defeating: ...once [the product] has been universally distributed, there is no more demand. (For instance, a great watch manufacturer has said, in a private remark, that in a year he could give everybody in the world a cheap durable watch and shut up shop.) One solution is to build obsolescence in the product...¹

Ralph Borsodi characterized the "push" model of distribution as focused on production rather than consumption.

With serial production, however, man has ventured into a topsy-turvy world in which goods that wear out rapidly or that go out of style before they have a chance to be worn out seem more desirable than goods which are durable and endurable. Goods now have to be consumed quickly or discarded quickly so that the buying of goods to take their place will keep the factory busy.

By the old system production was merely the means to an end.

By the new system production itself has become the end.²

The push model of distribution that resulted from the new mass-production industry of the late nineteenth century was a fundamental departure from the earlier state of producer-customer relations. As Deming said,

In the olden days, before the industrial era, the tailor, the carpenter, the shoemaker, the milkman, the blacksmith knew his customers by name. He knew whether they were satisfied, and what he should do to improve appreciation for his products.³

¹ Paul and Percival Goodman. *Communitas: Means of Livelihood and Ways of Life* (New York: Vintage Books, 1947, 1960), p. 125.

² Ralph Borsodi. *This Ugly Civilization* (Philadelphia: Porcupine Press, 1929, 1975), pp. 64-65.

³ W. Edwards Deming, *Out of the Crisis* (Cambridge, Mass.: MIT Center for Advanced Engineering Study,

With the predominance of multiple-purpose production technologies for a variety of short production runs, coupled with worker-ownership and the gearing of production to demand on a just-in-time model, the market incentives would be almost the direct opposite. The central economic pressure for the push economy (the need to make maximum use of expensive, specialized tools) would be eliminated.

When goods were produced individually, the home craftsman tried to maximize their durability. And under the pull model of distribution, likewise, consumption will drive production. Mises' "dollar democracy," long celebrated by so many vulgar libertarians in the face of inconvenient fact, will become a reality: the consumer will really be sovereign. Production will be organized in response to real demand, and the consumer will direct the design of the product. This is especially true of peer group production. It is also true, however, of networked local production on the Emilia-Romagna model.

B. Local Exchange Systems; Household and Informal Economies

The greater the number of consumption needs that are met through informal (barter, household and gift) economies, the less vulnerable individuals will be to the vagaries of the business cycle, and the less dependent on wage labor as well.

Suppose, for the moment, that right-wing libertarians are correct in the exaggerated claims they make for unlimited division of labor and comparative advantage. Suppose that, despite all the evidence in Part One, it really is cheaper for most people to buy most of the things they consume at Wal-Mart, and work for the wages to pay for them. Weigh that against the uncertainty and vulnerability entailed in the quite significant chance of unemployment faced by most people.

As many right-wing libertarians like to remind us, the days of lifetime job security are long past. The "creative destruction" they celebrate means that people in most lines of work can count on downsizing and job changes at the very least several times in a working lifetime, often with prolonged periods of unemployment and debt accumulation between jobs and significant reductions in pay with each move. The sheer hell of it, for the downsized white-collar employee, was depicted by Barbara Ehrenreich in *Bait and Switch*. From the standpoint of people who work for a living, often mired in credit card debt, keeping their heads above water only by augmenting their purchasing power with the cash value of inflated home equity, a paycheck or two from homelessness or bankruptcy, the flux of the new economy is a lot less exhilarating.

And bear in mind that many of the same people who denigrate artisan or subsistence labor, most notably the Misoids, are not only the same people who celebrate the “creative destruction” that undermines economic security for so many people. They are also the same people who regularly make the most apocalyptic predictions about credit inflation by central banks, the bursting of the housing bubble, and the Misesean “crackup boom.” No little inconsistency when those attitudes are laid side by side.

The ability to meet one's own consumption needs with one's own labor, using one's own land and tools, is something that can't be taken away by a recession or by a corporate decision to offshore production to India or China (or just to downsize the work force and speed up work for those who are left). The ability to trade one's surplus for other goods, with a neighbor also using his own land and tools, is likewise much more secure than a job in the capitalist economy.

Imagine an organic truck farmer who barter produce for plumbing services or other services from a self-employed tradesman living nearby. Neither the farmer nor the plumber can dispose of his full output in this manner, or meet all of his subsistence needs. But the two of them together have a secure and reliable source for all of both their plumbing and vegetable needs, and a reliable outlet for the portion of the output of each that is consumed by the other. The more trades and occupations that are brought into the exchange system, the greater the portion of total consumption needs of each that can be reliably and predictably be met within a stable sub-economy. At the same time, the less dependent each person is on outside wage income, and the more prepared to weather a prolonged period of unemployment in the outside wage economy.

Ralph Borsodi described the cumulative uncertainty produced by the concatenation of uncertainties entailed in an economy of large-scale factory production for anonymous markets:

Surely it is plain that no man can afford to be dependent upon some other man for the bare necessities of life without running the risk of losing all that is most precious to him. Yet that is precisely and exactly what most of us are doing today. Everybody seems to be dependent upon some one else for the opportunity to acquire the essentials of life. The factory-worker is dependent upon the man who employs him; both of them are dependent upon the salesmen and retailers who sell the goods they make, and all of them are dependent upon the consuming public, which may not want, or may not be able, to buy what they may have made.⁴

Subsistence, barter, and other informal economies, by reducing the intermediate steps between production and consumption, also reduce the contingency involved in consumption. If the realization of capital follows a circuit, as described by Marx in

⁴ Ralph Borsodi. *Flight from the City: An Experiment in Creative Living on the Land* (New York, Evanston, San Francisco, London: Harper & Row, 1933, 1972), p. 147.

Capital, the same is also true of labor. And the more steps in the circuit, the more likely the circuit is to be broken, and the realization of labor (the transformation of labor into use-value, through the indirect means of exchanging one's own labor for wages, and exchanging those wages for use-value produced by someone else's labor) is to fail. Marx, in *The Poverty of Philosophy*, pointed out long ago that the disjunction of supply from demand, which resulted in the boom-bust cycle, was inevitable given the large-scale production under industrial capitalism:

...[This true proportion between supply and demand] was possible only at a time when the means of production were limited, when the movement of exchange took place within very restricted bounds. With the birth of large-scale industry this true proportion had to come to an end, and production is inevitably compelled to pass in continuous succession through vicissitudes of prosperity, depression, crisis, stagnation, renewed prosperity, and so on.

Those who, like Sismondi, wish to return to the true proportion of production, while preserving the present basis of society, are reactionary, since, to be consistent, they must also wish to bring back all the other conditions of industry of former times.

What kept production in true, or more or less true, proportions? It was demand that dominated supply, that preceded it. Production followed close on the heels of consumption. Large-scale industry, forced by the very instruments at its disposal to produce on an ever-increasing scale, can no longer wait for demand. Production precedes consumption, supply compels demands.⁵

Where Marx went wrong was his assumption that large-scale industry, and production that preceded demand on the push model, were necessary for a high standard of living.

A decentralized economy, in which most production is small-scale and for local use, is ideal for the stable coordination of supply to demand. As Paul Goodman wrote,

Now, even apart from political freedom, such a tight local economy is essential if there is to be a close relation between production and consumption, for it means that prices and the value of labor will not be so subject to the fluctuations of the vast general market. A man's work, meaningful during production, will somewhat carry through the distribution and what he gets in return. That is, within limits, the nearer a system gets to simple household economy, the more it is an economy of specific things and services that are bartered, rather than an economy of generalized money.⁶

Leopold Kohr, in the same vein, compared local economies to harbors in a storm in their insulation from extreme fluctuations of price.

...small states... are... better equipped to ride out the storms of cyclical fluctuations. For the amplitude of such fluctuations is as automatically checked by small national size as waves

⁵ Karl Marx, *The Poverty of Philosophy*, Ch. 1.2 Constituted Value or Synthetic Value

⁶ Paul and Percival Goodman, *Communitas*, p. 170.

are in the shelter of a harbour.⁷

Ebenezer Howard, in his vision of Garden Cities, argued that the overhead costs of risk and distribution (as well as rent, given the cheap rural land on which the new towns would be built) would be far lower for both industry and retailers serving the less volatile local markets.

They might even sell considerably below the ordinary rate prevailing elsewhere, but yet, having an assured trade and being able very accurately to gauge demand, they might turn their money over with remarkable frequency. Their working expenses, too, would be absurdly small. They would not have to advertise for customers, though they would doubtless make announcements to them of any novelties; but all that waste of effort and of money which is so frequently expended by tradesmen in order to secure customers or to prevent their going elsewhere, would be quite unnecessary.⁸

The importance of subsistence production as an economic cushion is illustrated by the Homestead Unit project in the Dayton area, during the Great Depression, an experiment with household and community production in which Ralph Borsodi played a prominent organizing role. Despite some early success, it was eventually killed off by Harold Ickes, a technocratic liberal who wanted to run the homestead project along the same centralist lines as the Tennessee Valley Authority. The Homestead Units were built on cheap land in the countryside surrounding Dayton, with a combination of three-acre family homesteads and some division of labor on other community projects. The family homestead included garden, poultry and other livestock, and a small orchard and berry patch. The community provided woodlot and pasture, in addition.⁹ A Unit Committee vice president in the project described the economic security resulting from subsistence production:

There are few cities where the independence of a certain sort of citizen has not been brought into relief by the general difficulties of the depression. In the environs of all cities there is the soil-loving suburbanite. In some cases these are small farmers, market gardeners and poultry raisers who try to make their entire living from their little acres. More often and more successful there is a combination of rural and city industry. Some member of the family, while the others grow their crops, will have a job in town. A little money, where wages are joined to the produce of the soil, will go a long way. Here the whole family has work....

⁷ Leopold Kohr, *The Overdeveloped Nations: The Diseconomies of Scale* (New York: Schocken Books, 1977), p. 110.

⁸ Ebenezer Howard, *To-Morrow: A Peaceful Path to Real Reform*. Facsimile of original 1998 edition, with introduction and commentary by Peter Hall, Dennis Hardy and Colin Ward (London and New York: Routledge, 2003), pp. 100, 102 [facsimile pp. 77-78].

⁹ Ralph Borsodi, *The Nation*, April 19, 1933; reproduced in *Flight From the City*, pp. 154-59. Incidentally, the New Town project in Great Britain was similarly sabotaged, first under the centralizing social-democratic tendencies of Labour after WWII, and then by Thatcherite looting (er, "privatization") in the 1980s. Ward commentary, Howard, *To-Morrow*, p. 45.

When the depression came most of these members of these suburban families who held jobs in town were cut in wages and hours. In many cases they entirely lost their jobs. What, then, did they do?... The soil and the industries of their home provided them a job; not a well paying job, of course, but work and a living, however scant. Except for the comparatively few dollars required for taxes and a few other items they were able, under their own sail, to ride out the storm. The sailing was rough, perhaps; but not to be compared with that in the wreck-strewn town....

Farming as an exclusive business, a full means of livelihood, has collapsed. Talk of "back to the farms," in this meaning, is in view of the condition of the farmers, the sheerest nonsense, almost a crime. Laboring as an exclusive means of livelihood has also collapsed. The city laborer, wholly dependent on a job, is of all men most precariously placed. Who, then, is for the moment safe and secure? The nearest to it is this home and acres-owning family in between, which combines the two.¹⁰

An interesting experiment in restoring the "circuit of labor" through barter exchange was Depression-era organizations like the Unemployed Cooperative Relief Organization and Unemployed Exchange Association:

...The real economy was still there--paralyzed but still there. Farmers were still producing, more than they could sell. Fruit rotted on trees, vegetables in the fields. In January 1933, dairymen poured more than 12,000 gallons of milk into the Los Angeles City sewers every day.

The factories were there too. Machinery was idle. Old trucks were in side lots, needing only a little repair. All that capacity on the one hand, legions of idle men and women on the other. It was the financial casino that had failed, not the workers and machines. On street corners and around bare kitchen tables, people started to put two and two together. More precisely, they thought about new ways of putting two and two together....

In the spring of 1932, in Compton, California, an unemployed World War I veteran walked out to the farms that still ringed Los Angeles. He offered his labor in return for a sack of vegetables, and that evening he returned with more than his family needed. The next day a neighbor went out with him to the fields. Within two months 500 families were members of the Unemployed Cooperative Relief Organization (UCRO).

That group became one of 45 units in an organization that served the needs of some 150,000 people.

It operated a large warehouse, a distribution center, a gas and service station, a refrigeration facility, a sewing shop, a shoe shop, even medical services, all on cooperative principles. Members were expected to work two days a week, and benefits were allocated according to need....

The UCRO was just one organization in one city. Groups like it ultimately involved more than 1.3 million people, in more than 30 states. It happened spontaneously, without

¹⁰ Editorial by Walter Locke in *The Dayton News*, quoted by Borsodi in *Flight From the City*, pp. 170-71.

experts or blueprints. Most of the participants were blue collar workers whose formal schooling had stopped at high schools. Some groups evolved a kind of money to create more flexibility in exchange. An example was the Unemployed Exchange Association, or UXA, based in Oakland, California.... UXA began in a Hooverville... called "Pipe City," near the East Bay waterfront. Hundreds of homeless people were living there in sections of large sewer pipe that were never laid because the city ran out of money. Among them was Carl Rhodehamel, a musician and engineer.

Rhodehamel and others started going door to door in Oakland, offering to do home repairs in exchange for unwanted items. They repaired these and circulated them among themselves. Soon they established a commissary and sent scouts around the city and into the surrounding farms to see what they could scavenge or exchange labor for. Within six months they had 1,500 members, and a thriving sub-economy that included a foundry and machine shop, woodshop, garage, soap, factory, print shop, wood lot, ranches, and lumber mills. They rebuilt 18 trucks from scrap. At UXA's peak it distributed 40 tons of food a week.

It all worked on a time-credit system. Each hour worked earned a hundred points.... Members could use credits to buy food and other items at the commissary, medical and dental services, haircuts, and more. A council of some 45 coordinators met regularly to solve problems and discuss opportunities.

One coordinator might report that a saw needed a new motor. Another knew of a motor but the owner wanted a piano in return. A third member knew of a piano that was available. And on and on. It was an amalgam of enterprise and cooperation--the flexibility and hustle of the market, but without the encoded greed of the corporation or the stifling bureaucracy of the state. The economics texts don't really have a name for it. The members called it a "reciprocal economy."....

Today, the signs of financial and ecological collapse are mounting. We are strung out on foreign debt and foreign oil, and riding real estate inflation that won't last forever. Add the impending collapse of the natural life support system, and the '30s could seem benign by comparison. In this setting, the economics of self-help are increasingly relevant. The possibility of creating such an economy, though, might seem remote. In the 1930s, there were still farms on the outskirts of cities--family operations that could make barter deals on the spot. Factories were nearby too. Products were simple and made to last, and so could be scavenged and repaired.

All that has changed. The factories are in China, the farms are owned by corporations, and you can't walk to them from Los Angeles anymore. Products are made to break; the local repair shop is a distant memory. Hyper-sophisticated technology has put local mechanics out of business, let alone backyard tinkerers....

Yet there are trends on the other side as well. Energy technology is moving back to the local level, by way of solar, wind, biodiesel and the rest. The popularity of organics has given a boost to smaller farms. There's also the quiet revival of urban agriculture. Community gardens are booming--some 6,000 of them in 38 U.S. cities. In Boston, the Food Project produces over 120,000 pounds of vegetables on just 21 acres. Then consider the

unused land in U.S. cities: some 70,000 vacant parcels in Chicago, 31,000 in Philadelphia.¹¹

Under capitalism, the balance of power in the labor market is determined by labor's inability to take an offer or leave it. And we already saw in Chapter Fifteen how the ability to meet subsistence needs outside the wage system increases the bargaining power of labor.

Stewart Burgess, in a 1933 article, described a day's produce intake by the warehouse of Unit No. 1 in Compton. It included some fifteen different kinds of fruits and vegetables, including two tons of cabbage and seventy boxes of pears, all the way down to a single crate of beets--not to mention a sack of salt. The production facilities and the waste materials it used as inputs foreshadow the ideas of Colin Ward, Kirkpatrick Sale and Karl Hess on community warehouses and workshops, discussed in the last chapter:

In this warehouse is an auto repair shop, a shoe-repair shop, a small printing shop for the necessary slips and forms, and the inevitable woodpile where cast-off railroad ties are sawed into firewood. Down the street, in another building, women are making over clothing that has been bartered in. In another they are canning vegetables and fruit--Boy Scouts of the Burbank Unit brought in empty jars by the wagon-load.¹²

Claude Lewenz's Villages are designed to generate 80% of their income internally and 20% externally, with internally generated wealth circulating five times before it leaves the community.

The local economy is layered, built on a foundation that provides the basic needs independent of the global economy--if it melts down the Villagers will survive. The local economy is diversified. It shuns monocultures.... The local economy must provide conditions that encourage a wide diversity of businesses and officers to operate. Then when some collapse or move away, the local economy only suffers a bit--it remains healthy.¹³

Lewenz's Village is also essentially the kind of "resilient community" John Robb and Jeff Vail have in mind:

...[E]conomies can collapse and first-world people can starve if systems fail. We have now built a food system almost entirely dependent on diesel fuelled tractors, diesel delivery trucks and a long-distance supermarket delivery system [not to mention petroleum-based fertilizers--K.C.]. More recently, we shifted to an economic and communication system entirely dependent on computers--a system that only runs if the electrical grid supplies power. In the Great Depression in the USA, poor people say they hardly noticed--in those days they kept gardens because the USA was predominantly rural and village. The potential for economic collapse always looms, especially as the global economic system becomes

¹¹ Jonathan Rowe, "Entrepreneurs of Cooperation," *Yes!*, Spring 2006
<<http://www.yesmagazine.org/article.asp?ID=1464>>.

¹² J. Stewart Burgess, "Living on a Surplus," *The Survey* 68 (January 1933), p. 6.

¹³ Claude Lewenz, *How to Build a Village* (Auckland, New Zealand: Village Forum Press and Jackson House Publishing Company, 2007), p. 73.

more complex and vulnerable. Prudence would dictate that in planning for a local economy, it include provisions to assure the Village sustained its people, and those of the surrounding region, in such adverse conditions.

The challenge is to maintain a direct rural and farm connection for local, good food, and establish an underlying local economy that can operate independent of the larger economy and which can put unemployed people to work in hard times.¹⁴

Ralph Borsodi described, from his own personal experience, the greatly increased bargaining power of labor when the worker has the ability to walk away from the table:

....Eventually income began to go up as I cut down the time I devoted to earning money, or perhaps it would be more accurate to say I was able to secure more for my time as I became less and less dependent upon those to whom I sold my services.... This possibility of earning more, by needing to work less, is cumulative and is open to an immense number of professional workers. It is remarkable how much more appreciative of one's work employers and patrons become when they know that one is independent enough to decline unattractive commissions. And of course, if the wage-earning classes were generally to develop this sort of independence, employers would have to compete and bid up wages to secure workers instead of workers competing by cutting wages in order to get jobs.¹⁵

....Economic independence immeasurably improves your position as a seller of services. It replaces the present "buyer's market" for your services, in which the buyer dictates terms with a "seller's market," in which you dictate terms. It enables you to pick and choose the jobs you wish to perform and to refuse to work if the terms, conditions, and the purposes do not suit you. The next time you have your services to sell, see if you cannot command a better price for them if you can make the prospective buyer believe that you are under no compulsion to deal with him.¹⁶

The legend of Jacob and Esau is an excellent illustration of the operation of one of the most important of all economic laws: the law that *the terms upon which an exchange is made between two parties are determined by the relative extent to which each is free to refuse to make the exchange*. If both are free to refuse, then the exchange will be made on equitable terms.... The one who was "free" (to refuse the exchange), dictated the terms of the sale, and the one who was "not free" to refuse, had to pay whatever price was exacted from him.¹⁷

At the same time, communities of locally owned small enterprises are much healthier economically than communities that are colonized by large, absentee-owned corporations. For example, a 1947 study compared two communities in California: one a community of small farms, and the other dominated by a few large agribusiness operations. The small farming community had higher living standards, more parks, more stores, and more

¹⁴ Ibid., p. 77.

¹⁵ Borsodi, *Flight From the City*, p. 100.

¹⁶ Borsodi, *This Ugly Civilization*, p. 335.

¹⁷ Ibid., p. 403.

civic, social and recreational organizations.¹⁸

Bill McKibben made the same point in *Deep Economy*. Most money that's spent buying stuff from a national corporation is quickly sucked out of the local economy, while money that's spent at local businesses circulates repeatedly in the local economy and leaks much more slowly to the outside. According to a study in Vermont, substituting local production for only ten percent of imported food would create \$376 million in new economic output, including \$69 million in wages at over 3600 new jobs. A similar study in Britain found the multiplier effect of ten pounds spent at a local business benefited the local economy to the tune of 25 pounds, compared to only 14 for the same amount spent at a chain store.

The farmer buys a drink at the local pub; the pub owner gets a car tune-up at the local mechanic; the mechanic brings a shirt to the local tailor; the tailor buys some bread at the local bakery; the baker buys wheat for bread and fruit for muffins from the local farmer. When these businesses are not owned locally, money leaves the community at every transaction.¹⁹

As we saw in the last chapter, distributed production technology would be more compatible with pull distribution and the direct design of products by the user community. As Stefan Merten writes:

Like GNU/Linux already today, in a GPL Society, material goods in general would be available, whether stored or produced when needed. Goods that can be produced quickly, easily, and without complications - for example exclusively by using machines - would probably not need to be stored anymore. The produced goods would be accessible for free by everybody who needed them. If one of today's super markets were to be used as a distribution center, the first thing would be to remove the cash desks.

The available goods would, like GNU/Linux, be of high quality. This quality would apply to all aspects of a good. Not only would direct quality criteria, such as usability, flexibility or maintainability play a role, but others such as ecological criteria like longevity and the consumption of resources during production and use could be appropriately considered.

Like GNU/Linux, the goods would be designed based immediately on the potential users' need. The producers would determine these needs by getting directly into contact with the users, so the needs would not have to be mediated after the event by an anonymous instance like the market. That point would also concern the variety of available goods.

As with GNU/Linux today, the available goods would allow the user to handle them independently and responsibly. The strict separation of the producer on the one hand, who

¹⁸ L. S. Stavrianos. *The Promise of the Coming Dark Age* (San Francisco: W. H. Freeman and Company, 1976), p. 41.

¹⁹ Bill McKibben, *Deep Economy: The Wealth of Communities and the Durable Future* (New York: Times Books, 2007), p. 165.

has control of production, and the consumer on the other hand, who can only passively consume prefabricated things, would be loosened this way. Furthermore, production machines would be available to a broad community, because with their assistance, people could manufacture goods completely on their own.²⁰

C. Certification, Licensing and Trust

Without the current role of the state and other centralized institutions in overcoming the transaction costs of certifying quality and credit-worthiness, what is called "goodwill," or reputational effects, would likely take on much greater importance, with the patterns of exchange in local economies coalescing around social networks. This, too, would be a beneficial social effect of economic decentralization. Adem KUPI remarks on the role of the state in artificially lowering the transaction costs involved in establishing trust, underwriting risk, etc., in the anonymous transactions that occur in large markets:

...The Security State makes it too easy for people to stop thinking. In fact, it penalizes "over-thinking" by shortening time horizons. We just don't have time to think too much about anything, and we don't have enough options to weigh. They've done the thinking for us and pre-limited our options....

In the skeptical society, on the other hand, trust has to be earned, and people will rely on their local social networks to provide them with accurate information. Honesty, and not bullshit, will become the most valuable commodity. "Authority" as such will be scorned, unless it is backed up by a great deal of legitimate evidence. People will think more and do less, because that will be the only way to deal with risk. In the process, wealth will localize. No more vast towers of concentrated power. Production will become more interdependent, and decentralized, because no particular group will be able to sustain large-scale production, and thus no one will be denied the opportunity for small scale production....

The current growing ratio of noise to signal is putting pressure on the world to become more skeptical, which will put pressure on societies to shift away from guaranteeing security. They just won't be able to do it effectively. The idea of managing anything larger than a local area will become preposterous.²¹

Even in the present economy, organization theory blogger quasibill writes of the benefits of fraternal organizations in facilitating exchange between their members. Newsletters contain ads "from members who market their small businesses to each other (contracting, printing, landscaping, etc.)" Quasibill asked a friend in a fraternal

²⁰ Stefan Merten, "GNU/Linux--Milestone on the Way to the GPL Society." Paper of the talk at the LinuxTag '00 in Stuttgart, June 29, 2000 <<http://www.oekonux.org/texts/meilenstein/english.html>>. Merten is a Marxist who envisions a post-scarcity, moneyless society. But his ideas are relevant to those of us envisioning a market society with far less scarcity and lower cost, even if Marx's principle of distribution ("to each according to his need") is never achieved.

²¹ Adem KUPI, "The Security State vs. the Skeptical Society," *A Pox on All Their Houses*, July 12, 2005 <<http://poxyhouses.blogspot.com/2005/07/security-state-vs-skeptical-society.html>>.

organization whether such ads paid off. The answer was "yes":

He noted that most members preferred doing business within the organization because there was a social peer enforcement mechanism at work. Specifically, he noted that while a vendor might be willing to "work to rule" with many customers, or even be willing to file bankruptcy against general creditors, the social peer pressure that could be exerted through the organization made dealings within the organization more fair and certain. You could win your case in court on a legal technicality, but if the members of the organization determined that you weren't acting fairly, you were going to be ostracized from the organization before you could turn your head.²²

The same was true, to a large extent, in the old Main Street business culture, when local merchants and tradesmen depended on repeat business from people they knew. Eric Frank Russell's story of Idle Jack, in "And Then There Were None," is relevant here. The world in which the story takes place was founded by Gandhian refugees from the Terran Empire centuries before, and is organized more or less along the lines of market anarchy suggested by Josiah Warren. Land ownership is based on occupancy and use--no landlords--and the economy is based on a sort of labor exchange system ("obligations" or "obs"). A visitor wondered what the penalties were for running up obligations and then refusing to meet them.

'Some guys must make an easy living,' interjected Gleed. 'There's nothing to stop them that I can see.' He studied Seth briefly before he asked, 'How can you cope with a citizen who has no conscience?'

Elissa suggested, 'Tell them the story of Idle Jack.'

[Seth] licked his lips, began, "This Idle Jack came from Terra as a baby, grew up in our new world, gained an understanding of our economic system and thought he'd be mighty smart. He decided to become a scratcher.'

'What's a scratcher?' asked Gleed.

'One who lives by accepting obs but does nothing about wiping them out or planting any of his own. One who takes everything that's going and gives nothing in return.'

'We've still got 'em,' said Gleed.

'Up to age sixteen Jack got away with it all along the line. He was only a kid, see? All kids tend to scratch to a certain extent. We expect it and allow for it. But after sixteen he was soon in the soup.'

'How?' urged Harrison, more interested than he was willing to admit.

²² Quasibill, "Function Follows Form, or Vice Versa (except if either one contradicts your pre-determined outcomes)," *The Bell Tower*, June 10, 2008 <<http://the-bell-tower.blogspot.com/2008/06/function-follows-form-or-vice-versa.html>>.

‘He loafed around the town gathering obs by the armful. Meals, clothes and all sorts for the mere asking. It wasn’t a big town. There are no big ones on this planet. They are just small enough for everybody to know everybody—and everyone does plenty of gabbing. Within a few months the entire town knew that Jack was a determined and incorrigible scratcher.’

‘Go on,’ said Harrison impatiently.

‘Everything dried up,’ responded Seth. ‘Wherever Jack went people gave him the, “I won’t.” He got no meals, no clothes, no company, no entertainment, nothing. He was avoided like a leper. Soon he became terribly hungry, busted into someone’s larder one night, treated himself to the first square meal in a week.’

‘What did they do about that?’

‘Nothing, not a thing.’

‘That must have encouraged him some, mustn’t it?’

‘How could it?’ asked Seth with a thin smile. ‘It did him no good. Next day his belly was empty again. He was forced to repeat the performance. And the next day. And the next. People then became leery, locked up their stuff and kept watch on it. Circumstances grew harder and harder. They grew so unbearably hard that soon it was a lot easier to leave the town and try another one. So Idle Jack went away.’

‘To do the same again,’ Harrison prompted.

‘With the same results for the same reasons,’ Seth threw back at him. ‘On he went to a third town, a fourth, a fifth, a twentieth. He was stubborn enough to be witless.’

‘But he was getting by,’ Harrison insisted. ‘Taking all for nothing at the cost of moving around.’

‘Oh, no he wasn’t. Our towns are small, as I said. And people do plenty of visiting from one to another. In the second town Jack had to risk being seen and talked about by visitors from the first town. In the third town he had to cope with talkers from both the first and second ones. As he went on it became a whole lot worse. In the twentieth he had to chance being condemned by anyone coming from any of the previous nineteen.’ Seth leaned forward, said with emphasis, ‘He never reached town number twenty-eight.’

‘No?’

‘He lasted two weeks in number twenty-five, eight days in number twenty-six, one day in twenty-seven. That was almost the end. He knew he’d be recognized the moment he showed his face in number twenty-eight.’

‘What did he do then?’

‘He took to the open country, tried to live like an animal feeding on roots and wild

berries. Then he disappeared-until one day some walkers found him swinging from a tree. His body was emaciated and clad in rags. Loneliness, self-neglect and his own stupidity had combined to kill him. That was Idle Jack, the scratcher. He wasn't twenty years old.²³

Social guarantees of trust become especially important if we reject the role of the state in enforcing debts on borrowers, under bankruptcy law. Lysander Spooner denied that debt had any legal obligation. And the debtor seldom had even a moral obligation to pay beyond his means and ability. "The law requires no impossibilities from any man. If a man contract to perform what proves to be an impossibility, the contract is valid only for so much as is possible...." It was the creditor's responsibility to judge the debtor's ability to repay before loaning money. The state should not be in the position of collecting debts. The lender's right to charge any interest rate for which he could find a taker, on the other hand, was the lender's hedge against risk in an unsecured loan. (Of course, this superficially anarcho-capitalistic position should be seen in the light of Spooner's belief, for the same reasons as Greene and Tucker, that there would be precious few takers given the low interest rates that would prevail in a free banking market.)²⁴

Murray Rothbard argued, based on the inalienability of moral agency, that promises were legally unenforceable. But he made an exception for debts, treating default on a debt as a fraud on the assumption that the borrower at the outset undertook an obligation to repay with a deliberate intent to default. In that case, his acceptance of funds or goods on false pretenses amounts to theft, and he is liable for restitution.

We have already seen that contracts assigning away the will of an individual cannot be enforced in such a market, because the will of each person is by its nature inalienable. On the other hand, if the individual made such a contract and received another's property in exchange, he must forfeit part or all of the property when he decides to terminate the agreement. We shall see that fraud may be considered as theft, because one individual receives the other's property but does not fulfill his part of the exchange bargain, thereby taking the other's property without his consent. This case provides the clue to the role of contract and its enforcement in the free society. Contract must be considered as an agreed-upon exchange between two persons of two goods, present or future. Persons would be free to make any and all property contracts that they wished; and, for a free society to exist, all contracts, where the good is naturally alienable, must be enforced. Failure to fulfill contracts must be considered as theft of the other's property. Thus, when a debtor purchases a good in exchange for a promise of future payment, the good cannot be considered his property until the agreed contract has been fulfilled and payment made. Until then, it remains the creditor's property, and nonpayment would be equivalent to theft of the creditor's property....

An important consideration here is that contract *not* be enforced because a promise has been made that is not kept. It is not the business of the enforcing agency or agencies in the free market to enforce promises merely because they are promises; its business is to enforce

²³ Eric Frank Russell, "And Then There Were None," *Astounding Science Fiction*, vol. XLVII, no.4 (June 1951) <<http://www.abelard.org/e-f-russell.php>>.

²⁴ Lysander Spooner, *Poverty: Its Illegal Causes and Legal Cure* (Boston: Bela Marsh, 1846) <<http://www.lysanderspooner.org/Poverty.htm>>.

against theft of property, and contracts are enforced because of the implicit theft involved.

Evidence of a *promise to pay property* is an enforceable claim, because the possessor of this claim is, in effect, the owner of the property involved, and failure to redeem the claim is equivalent to theft of the property.²⁵

But as blogger quasibill argued, the borrower's subjective intent to defraud is a question on which the lender has the burden of proof.

In his chapter on property rights and the theory of contracts, Professor Rothbard, like Professor Hoppe, starts with an insight that he quickly backtracks on: “while it may well be the moral thing to keep one’s promises, that it is not and cannot be the function of law (i.e., legal violence) in a libertarian system to enforce morality. After providing this insight, however, Rothbard resorts to the metaphysical concept of title to transform an unenforceable promise into an enforceable condition of ownership transfer.

Rothbard does not make clear just what is the fundamental distinction between a promise and a condition. There is no inquiry into what about the metaphysical concept of title changes the character of a promise into a condition. He merely states that a condition creates an incomplete transfer of title to another person, whereby the failure of keeping the promise, or condition, turns the breacher into a thief!

This impressive pretzel-making, however, stretches the definition of thief beyond anything any normal person would ever recognize. First, even Rothbard would admit that no violence has occurred in the transaction. Possession of the item was transferred voluntarily. Along the same lines, possession was given with the full knowledge of the original possessor, so it cannot be analogized to a pick-pocket or other non-violent theft. Given these conditions, Rothbard attempts to shoe-horn the circumstances into the concept of legal fraud. However, as we shall see, even this fails, as the failure to keep a promise, by itself, does not meet the legal definition of fraud.

Generally speaking, fraud requires an intentional misrepresentation of material fact, upon which a victim relies to their detriment. It’s those first four words that make hash out of Rothbard’s theft by fraud argument. Mere failure to perform a future condition is not, by itself, an intentional misrepresentation of material fact. The promisor may full well intend to fulfill his promise at the time he makes it. As such, it can’t be said that his statement was an intentional misrepresentation. This insight is so basic that most jurisdictions have rules that require more than a mere failure to perform in order to establish an intentional misrepresentation.

Leaving aside legal formalities, it is clear that Rothbard’s argument fails from a deontological viewpoint as well. If we view contract negotiation as the art of risk allotment, as most contract drafters do, we can understand the ethical standing of the parties involved. The original property owner, who transfers possession to another in return for a promise, is implicitly accepting the risk that the promise won’t be performed. If he didn’t accept the risk,

²⁵ Murray Rothbard. *Man, Economy, and State: A Treatise on Economic Principles* (Auburn, Ala.: The Ludwig von Mises Institute, 1962, 1970, 1993), Ch. 2, 13.

he would retain possession until the promise was performed.

It is clear that, even under current contract law, or even Rothbard's proposed law, such risk allotment occurs regardless of any language in a contract governing the transfer. For example, if, after the transfer of a car contingent upon the future payment of a set sum, the transferee dies in a crash that wrecks the car, the transferor has, in all likelihood, lost all recourse through no act of aggression or deceit on the part of the transferee. He took this risk, whether he knew it or not. This concept of risk allocation is well detailed in the history of the legal concept of impossibility.

Returning to the underlying discussion of conflict-avoiding property law, Rothbard's system fails, even though it is an improvement over current law. Any reference to a metaphysical title to property does not allow others to quickly and easily determine property links between person and item. Rothbard's concept of conditional title allows for a cascading series of conflicts should a future promise not be kept.

For example, imagine that A sells B a car in return for B's biggest tomato in the next harvest, and B subsequently sells the car, for a drum of motor oil, to C, who in turn sells it to D for lumber. B subsequently has a crop failure and can't give A any tomatoes, D loses the car to A, because A retains some metaphysical concept of "title", which then allows D to seek the lumber from C for the failure of the consideration in their exchange (i.e., D retains ultimate title to the lumber due to the failure of meeting the implied condition of good title in the car). And so on.

And it gets worse – what if C and B used the lumber and motor oil in ways that changed their character? What if the lumber has been cut, nailed, painted and otherwise modified to the point where its value to anyone but C is virtually nil? Conflicts abound, even discounting the conflicts inherent in the transaction costs imposed by a title system.

So the answer appears to be that the best conflict avoiding contract law system is one where possession is, in effect, 9/10 of the law. The only exception is where possession was obtained through aggression, intentional deceit, or theft (of the pickpocket variety). Those parties who engage in voluntary transactions are free to write contracts detailing the terms of their agreement. However, the legal system will not employ legalized violence to enforce such promises. While it may be moral to keep such promises, and reputation for keeping promises may become a social good that is much sought after, it will not be a concern of the legal system.²⁶

....In actuality, a loan agreement involves a transaction whereby lender gives property in exchange for a promise of future performance. The contract is "complete" at that moment. The lender is in complete control of this, BTW - he can refuse to transfer the property until he is subjectively assured of the value of the promise. Some possibilities, including what you have mentioned, are insurance, or bonds, or co-signers...

The question of whether you can coercively enforce performance of a promise is one

²⁶ Quasibill, "Property rights and contract enforcement," *The Bell Tower*, March 22, 2007 <<http://the-bell-tower.blogspot.com/2007/03/property-rights-and-contract.html>>.

answered by Rothbard in an eminently reasonable fashion, IMHO....

....Don't forget that only coercion is forbidden. Boycott and shunning, especially organized forms, are absolutely justified actions that you can pursue rather than "grin and bear it". And if, as I think likely, there is some sort of moral court that helps organize these things (think credit agencies that have some sort of adversarial hearing), you will rarely have to "grin and bear it", unless you made a really foolish decision to trust someone that had nothing to lose with respect to commercial reputation.

As for the rest, it's more difficult because you're mixing separate concepts of "what is moral" and "what justifies coercion." I think a person is immoral if he fails to keep his promise because of his own reckless decisions - but that coercion is not justified to enforce his promise....

The key is that coercive remedies wouldn't be available until you proved that intentional misrepresentation. However, the commercial consequences of failing to keep your word, even if not fraudulent, would likely be tremendously severe in a society that adopted my model, even if the consequences were not coercive. Very few people would do business with you under any circumstance, and those that would demand onerous conditions like large insurance contracts or deep-pocket co-signers who can be trusted. I would guess that even fewer people would default in such a society, because they couldn't hide behind legalistic decisions or sharp practices to defeat the plain understanding of what they promised to do.²⁷

In a genuinely free market, all the licensing and certification regimes presently in place would be replaced by voluntary alternatives. Morris and Linda Tannehill write:

Of course, stiff competition between businesses is the consumer's best guarantee of getting a good product at a reasonable price--dishonest competitors are swiftly "voted" out of business by consumers. But, in addition to competition, the market would evolve means of safeguarding the consumer which would be vastly superior to the contradictory, confusing, and harassing weight of government regulations with which the bureaucrats claim to protect us today. One such market protection would be consumer rating services which would test and rate various products according to safety, effectiveness, cost, etc. Since the whole existence of these rating services would depend on their being right in their product evaluations, they would be extremely thorough in their tests, scrupulously honest in their reports, and nearly impossible to bribe....

Businesses whose products were potentially dangerous to consumers would be especially dependent on a good reputation. Drug manufacturers, for example, would know that if their products caused any illness or death through poor quality, insufficient research and preparation, or inadequate warnings on the labels they would lose customers by the thousands. The good reputation of a manufacturer's brand name would be its most precious asset.... Besides this, drug stores would strive for a reputation of stocking only products

²⁷ Quasibill, "A Challenge to Anti-Corporate Libertarians and Anarchists," *LeftLibertarian2*, January 4, 2008. <<http://groups.yahoo.com/group/LeftLibertarian2/message/16883>> See also "Contract enforcement consolidation," *The Bell Tower*, December 20, 2007. <<http://the-bell-tower.blogspot.com/2007/12/contract-enforcement-consolidation.html>>.

which were high quality, safe when properly used, and adequately labeled....

A good reputation would also be important to doctors in the absence of government-required licensing. Of course, any man would be free to hang out a shingle and call himself a doctor, but a man whose "treatments" harmed his patients couldn't stay in business long. Besides, reputable physicians would probably form medical organizations which would only sanction competent doctors, thereby providing consumers with a guide. Insurance companies, who have a vested interest in keeping their policyholders alive and healthy, would provide another safeguard in the field of drugs and medical care. Insurance companies might well charge lower rates on life and health insurance to policyholders who contracted to use only those medicines and to patronize only those doctors sanctioned by a reputable medical association.²⁸

Sam Kazman, in a 1998 article written fairly early in the move toward federal standards for organic labeling, described the success of voluntary certification in the past:

The U.S. Department of Agriculture... recently came close to igniting the mother of all food fights with its organic-food labeling proceeding. The rulemaking drew over 115,000 comments—a record for the agency. At issue were such questions as whether the term *organic* could be applied to such items as genetically modified foods, irradiated meat, or crops fertilized with municipal sludge. Even the eligibility of livestock raised under confined conditions was questioned....

As demand for organic food has grown, private organic-certifying agencies have arisen. Some have stricter standards than others, and some may have standards and enforcement practices so lenient that they are practically meaningless. But to the extent that differences between them really mean something to consumers, those consumers are fully capable of distinguishing between them (or of choosing retailers who do the job for them). Regardless of whether we view the popularity of organic food as a crazy fad, a long-term market development, or an evolving esthetic, two things are clear: producers and consumers are entitled to pursue it, and government should keep out.

The lack of any pressing necessity for such involvement is clear. The large organic-foodstore chains already have established connections with suppliers and certifying agencies; the same is true of conventional supermarket chains that carry organic products. In the words of one marketing director, "consumers won't see any drastic changes in our stores" under a federal rule. "We've been taking a very strong stance on organic from the beginning, requiring certification from growers."

Organic growers themselves are also capable of doing without a cumbersome federal definition. According to one organic-farming newsletter, "many growers say that if certified organic becomes too difficult, or meaningless, they will just use another word to market their produce."...

Consumers who care about such issues don't need the force of law in order to obtain the information they want about food products. USDA has already announced that its eventual

²⁸ Morris and Linda Tannehill, *The Market for Liberty* (New York: Laissez Faire Books, 1984), pp. 49-50.

definition will not allow genetically modified foods, but suppose it had ruled otherwise. Producers of organic foods that were *not* genetically modified could still communicate that fact to interested consumers—through labeling, through advertising, and even through private organic-certification systems that make a point of prohibiting bioengineered products. Information that groups of consumers want will make its way to them without legal compulsion.

In fact, as we already saw in Chapter Three, legal compulsion is used more often to *suppress* free commercial speech, in the interest of those whose products include bioengineered food, by *prohibiting* the labeling of GMO-free products. Kazman goes on to describe the free market certification regime for kosher foods:

In a sense, this is exactly what has happened for kosher certification. When it comes to kosher food, some people couldn't care less, some people care only that a product be labeled kosher, and some are concerned about the strictness of the standard met by the product. For this last group there are competing rabbinical inspection boards, each with a different logo. With the possible exception of guarding against outright fraud, there is little need for government involvement. Interestingly enough, despite the lack of that involvement, consumer demand for kosher certification is so high that it has "gone mainstream." Kosher-product sales have been growing steadily (in dollar volume they are only slightly behind organic food), and such mass marketers as Nabisco and Mars have recently joined the trend. Consumers seem capable of sorting things out peacefully.²⁹

D. Social Services

As we already saw in Chapter Thirteen, mutualists favor Proudhon's model of "dissolving the state in the economy" (or in the social body). In practical terms, that meant depriving state functions of their coercive nature so that relationships previously characterized by authority would take on the character of voluntary exchange.

Unlike state socialists, including Social Democrats, we oppose the direct provision of social services by the state. But unlike anarcho-capitalists and right-wing libertarians, we don't equate the selling off state functions to capitalist corporations with "privatization." And unlike the vulgar libertarians and neoliberals, we most certainly oppose the contracting out of taxpayer-funded functions to politically connected "private" corporations, or the kind of "privatization" that leaves the newly "private" public service dependent on taxpayer funds for its revenue and functioning in a web of statist protections against genuine market competition.

The genuine free market alternative is mutualizing government services: that is, decentralizing them to the smallest possible local unit of control, transforming them into consumer cooperatives governed by their own clientele, and ultimately removing all

²⁹ Sam Kazman, "The Mother of All Food Fights," *The Freeman: Ideas on Liberty* 48:11 (November 1998) <<http://www.fee.org/Publications/the-Freeman/article.asp?aid=3699>>.

taxpayer funding and leaving them to provide their services only to willing clients. For example, citywide school boards should be dissolved, and neighborhood schools transformed into consumer co-ops directly controlled by some combination of the teachers and the parents of the children attending. Public non-profit hospitals should be transformed into *genuinely* public institutions: stakeholder cooperatives governed by representatives of patients, doctors and nursing staff, and other hospital staff. Publicly owned utilities should be turned over to the ratepayers. Larry Gambone's Mutualize! website is dedicated to this idea.³⁰

Clarence Swartz speculated that government might survive, retaining its organizational integrity, into a post-state era. By ceasing to fund its services by coercive taxation of unwilling "consumers," and allowing competition from other providers, the government would take on the character of a consumers' cooperative:

If the invasive activities of government were absolutely eradicated, it could still act as the protector of the individuals who compose it, or over whom it has jurisdiction. Yet, if it had no invasive powers at all, it could not forcibly provide for its own maintenance. It would therefore become a purely voluntary association, and would have to depend for its existence upon the satisfaction it gave in the service it rendered.³¹

Many anarcho-capitalists, speculating on the nature of a stateless society, envision a large number of competing "protection agencies." But it might well be the case that police and fire service are a natural monopoly, or at least approach it. It seems likely that it would be easier for dissatisfied clients of the primary mutual defense association, the inheritor of the old government's personnel and equipment, to stage a "hostile takeover" by replacing the board of selectmen, than to organize a competing security force of their own. A considerable minority of people might choose to hire competing private security services serving niche markets, participate in neighborhood watches, or even simply rely on their own home security measures combined with the general deterrent effect of an armed populace. But I tend to think that the majority would continue to think of the old municipal police and fire services, reorganized on a voluntary basis, as belonging to the community in some special sense. The sense of membership in a community, and the preference for organizing services through the community, predated the state--and it will likely survive the state.

E. Mutual Aid and the Voluntary Welfare State

As I wrote the original draft of this passage,³² I had just finished watching an episode of CNN's *In the Money* on charitable giving. First came interviews with several retired senior corporate managers, including a guy from Citicorp who'd given away some \$500

³⁰ <<http://www.geocities.com/vcmtalk/mutualize>>

³¹ Clarence L. Swartz, *What is Mutualism?* (New York: Vanguard Press, 1927), p. 11.

³² November 25, 2006.

million in his lifetime, discussing the importance of private sector "entrepreneurialism" in charity work. And Bono was singing hosannas about Warren Buffett and Bill Gates. Another plutocratic charitable showcase was "Product Red," a trendy venture by the same giant corporations employing people for pocket change to sew clothing in sweatshops and put together electronics in *maquiladoras*--and guess where the money goes? Why, to buy AIDS drugs for Africa, from Big Pharma, at patent monopoly prices! Now, to me it seems obvious that nobody could have \$500 million, let alone \$32 billion, to give away in the first place by any honest means. But everyone involved in the discussion seemed to accept as entirely natural the existing corporate framework and the fact that charity was the preserve of giant non-profit foundations dominated by retired corporate management. As a matter of fact, Bono was followed by Ben Goldhirsch of *Good* magazine (the heir of the *Inc.* magazine fortune), gushing that "today's generation," unlike the protest generation of the Sixties, grew up accepting the existing corporate system, or "infrastructure"; they see the corporate infrastructure as having made them well-off, and want to work through the system to do good.

But as egregious as this particular example is, it's hardly new. At the local level, one can't pick up the "Society" or "Community" section of the newspaper without seeing a bunch of Rotary Club yahoos wearing pink ribbons for breast cancer, kissing pigs for diabetes, or handing over a giant check to the United Way.

In this environment, it's hard to believe that mutual aid was once dominated by self-organized associations of working people taking care of their own: that unemployment, health and burial insurance, and other forms of mutual aid, were once primarily something the working class did for itself. The plutocrats' large donations to charity are frequently used to justify their great concentrations of wealth. But through most of the nineteenth century, even in the face of the economic privilege that existed then, a large portion of help for the sick and unemployed came from mutual aid associations organized by the laboring classes for themselves. As described by Colin Ward,

in the nineteenth century the newly-created British working class built up from nothing a vast network of social and economic initiatives based on self-help and mutual aid. The list is endless: friendly societies, building societies, sick clubs, coffin clubs, clothing clubs, up to enormous federated enterprises like the trade union movement and the Co-operative movement. The question that latter-day discoverers of that tradition ask is, 'How did we allow it to ossify?'

The answer, Ward continues, is that the statist Left used up all the "moral oxygen," and "invested all its fund of social inventiveness" in the centralized state, so that "its own traditions of self-help and mutual aid were stifled for lack of ideological oxygen."³³ The vigorous and thriving network was crowded out, in large part, by the combined effects of the corporate plutocracy's charitable establishment and the welfare state. As Ralph

³³ Colin Ward, "The welfare road we failed to take," in *Social Policy: An Anarchist Response* (London: Freedom Press, 1996), pp. 10-11.

Borsodi wrote,

...[I]t is a mistake to assume that without philanthropies of the Rockefeller type, the world would have been without the educational, medical, and religious institutions and activities which their gifts brought into being. On the contrary, it is quite probable that, had wealth not been so concentrated, support of these institutions by the state, and contributions from individuals who had been deprived of wealth by the Rockefellers, would have exceeded their relatively niggardly philanthropies to them. The institutions might not have become such grandiose projects in point of size, but they might have permitted a much greater degree of freedom to those who really created and conducted them. The present stranglehold which "big business" has upon our eleemosynary institutions would have hardly developed had the part played by educators, by scientists, and by artists in their development been better recognized, and the part played by the contributors of money been minimized....

The Rockefellers of today "give" colleges, hospitals, foundations, just as the medieval barons used to "give" monasteries, nunneries, chapels, and the Roman senators used to "give" baths and amphitheatres. But in reality they "give" nothing. They merely return a part of what they were acquisitive and powerful enough to seize.³⁴

An anecdote from E. P. Thompson's *The Making of the English Working Class* is illustrative. As a group of factory workers passed by a Methodist chapel built by one of the mill-owners, one of them "looked towards the chapel and wished it might sink into hell, and Mr. Sutcliffe go with it."

I said it was too bad, as Mr. Sutcliffe had built the chapel for their good. "Damn him," said another, "I know him, I have had a swatch of him, and a corner of that chapel is mine, and it all belongs to his workpeople."³⁵

Not only the wealthy, but the "alliance of bureaucrats and professionals... with their undisguised contempt for the way ordinary people organised anything,"³⁶ were complicit in killing off the voluntary welfare state. After 1945,

[t]he great tradition of working class self-help and mutual aid was written off, not just as irrelevant, but as an actual impediment, by the political and professional architects of the welfare state, aspiring to a universal public provision of everything for everybody.... The nineteenth century working classes, living far below the tax threshold, taxed themselves in pennies every week for the upkeep of their innumerable friendly societies. The twentieth century employed workers, as well as its alleged National Insurance contributions, pays a large slice of its income for the support of the state. The socialist ideal was rewritten as a world in which everyone was entitled to everything, but where nobody except the provident had any actual say about anything. We have been learning for years, in the anti-welfare

³⁴ Ralph Borsodi, *This Ugly Civilization*, pp. 235-36.

³⁵ E. P. Thompson, *The Making of the English Working Class* (New York: Vintage Books, 1963, 1966), pp. 346-347.

³⁶ Ward, "The welfare road we failed to take," p. 11.

backlash, what a very vulnerable utopia that was.³⁷

Starting with Beatrice Webb, the official version of history presented by the Fabian Society and by Labour governments rewrote accounts of the nineteenth century in line with this hostile attitude toward working class self-organization. It was, at best, patronized as well-meaning but shoddy and amateurish, and at worst demonized as atavistic, as the enemy of Progress.³⁸ The parallel to the treatment of the Confederation period of the 1780s, in the official Whig version of history presented in American public school textbooks, is striking. The preexisting state of affairs, before the inevitable triumph of the forces of Progress, is presented merely as a foil for the centralizing savior, and supporters of the old decentralized order are dismissed as "men of little faith."

Ward contrasts the libertarian, bottom-up nature of the workers' self-organized welfare state with the institutionalized welfare and charitable systems overseen by professional administrators:

When we compare the Victorian antecedents of our public institutions with the organs of working-class mutual aid in the same period the very names speak volumes. On the one side the Workhouse, the Poor Law Infirmary, the National Society for the Education of the Poor in Accordance with the Principles of the Established Church; and, on the other, the *Friendly Society*, the *Sick Club*, the *Cooperative Society*, the *Trade Union*. One represents the tradition of fraternal and autonomous association springing up from below, the other that of authoritarian institutions directed from above.³⁹

The chief limitation of the working class's self-organized welfare state was its lack of resources. But imagine a society in which workers not only kept the full fruit of their labor, but in which small-scale machine production increased the surplus available for mutual aid far above nineteenth century levels, and shortened working hours allowed the leisure for convivial association.

As Colin Ward describes the voluntary welfare state in Great Britain, "Small tradesmen, artisans, labourers-- all sought to insure themselves against sickness, unemployment, or funeral expenses through membership of 'box clubs' or friendly societies."⁴⁰ According to E. P. Thompson, best estimates for their membership grew from 648,000 in 1793 to 925,429 in 1815⁴¹; considering that the total British population in 1815 was around ten million, membership would have encompassed a majority of households. Friendly societies continued to grow in number, at an accelerating rate, into the late 19th century. In 1877, registered membership was over two and three-quarter million. Ten years later it reached over three and a half million and was increasing at an average rate of at least 90,000 a year. Membership reached 4.8 million in 1897, still

³⁷ Ibid., pp. 11-12.

³⁸ Ibid., p. 12.

³⁹ Ward, *Anarchy in Action* (London: Freedom Press, 1982), p. 123.

⁴⁰ Thompson, *Making of the English Working Class*, p. 419.

⁴¹ Ibid., pp. 420-421.

increasing at an average of 120,000 a year. By 1910 membership was 6.6 million. "It is important to remember that these figures simply reflect the numbers known to the Government. For many societies preferred to avoid even the minimal interference of the British state, and simply 'failed' to register." The Chief Registrar of Friendly Societies estimated in 1892 that 3.8 million of 7 million industrial workers were insured against sickness through a registered friendly society, while at least another 3 million belonged to unregistered societies. By 1900 the various provident institutions controlled L400 million, and by 1911 covered nine and a half million people by some form of insurance.⁴²

The contemporary welfare state and the plutocrat-dominated charitable foundations are integrated into the larger state capitalist system, and serve its ends. They couple the relief of destitution, homelessness and starvation, to the extent necessary to prevent political threats to the power of the ruling class, with social discipline and supervision of the lower orders.

The workers' own libertarian welfare state, on the contrary, served the ends of workers themselves. David Green writes:

The friendly societies were self-governing mutual benefit associations founded by manual workers to provide against hard times. They strongly distinguished their guiding philosophy from the philanthropy which lay at the heart of charitable work. The mutual benefit association was not run by one set of people with the intention of helping another separate group, it was an association of individuals pledged to help each other when the occasion arose. Any assistance was not a matter of largesse but of entitlement, earned by the regular contributions paid into the common fund by every member and justified by the obligation to do the same for other members if hardship came their way.⁴³

The friendly societies, between 1790 and 1830 as described by Thompson, were part of a greater whole: an emerging, distinctively working class culture with its own institutions.

By 1832 there were strongly-based and self-conscious working-class institutions--trade unions, friendly societies, educational and religious movements, political organizations, periodicals--working-class intellectual traditions, working-class community-patterns, and a working-class structure of feeling.⁴⁴

....In the simple cellular structure of the friendly society, with its workaday ethos of mutual aid, we can see many features which were reproduced in more sophisticated and complex forms in trade unions, co-operatives, Hampden Clubs, Political Unions, and Chartist lodges. At the same time the societies can be seen as chrySTALLISING an ethos of mutuality

⁴² Tim Evans, "Socialism Without the State." Political Notes No. 99 (London: Libertarian Alliance, 1994). <<http://www.libertarian.co.uk/lapubs/polin/polin099.pdf>>

⁴³ David Green, *Reinventing Civil Society* (London: Institute of Economic Affairs, Health and Welfare Unit, 1993), p. 30.

⁴⁴ Thompson, *Making of the English Working Class*, p. 194.

very much more widely diffused in the "dense" and "concrete" particulars of the personal relations of working people, at home and at work. Every kind of witness in the first half of the 19th century--clergymen, factory inspectors, Radical publicists--remarked upon the extent of mutual aid in the poorest districts. In times of emergency, unemployment, strikes, sickness, childbirth, then it was the poor who "helped every one his neighbour".⁴⁵

Such common endeavors, combined with the need to exercise vigilance over a body to whom they had entrusted their funds, were a school in self-discipline and participatory democracy.

The importance of this cannot be overemphasized. For ten, twelve, or fourteen hours a day, six days a week, most of these men were held in absolute contempt. They were human raw material, means to an end, chattels whose values, opinions and desires were less than worthless. They worked in an environment in which prototypical "industrial engineers" like Andrew Ure looked for ways to deskill the work force, and to make the work process as independent as possible of the judgment of workers on the shop floor. But in these meetings, "the stone that the builders refused became the head cornerstone."

To a considerable extent, this building of counter-institutions was an act of conscious class warfare, an attempt to reconstruct an imagined social order, in deliberate opposition to a class enemy which was believed to have overturned that order. "The factory hand or stockinger was also the inheritor of Bunyan, of remembered village rights, of notions of equality before the law, of craft traditions."⁴⁶

The Enclosures were a living memory to many in the 1830s, and for many others a real memory passed on by their parents and grandparents. And all were confronted, on a daily basis, by a reality defined by the Law of Settlements' internal passport system and the Poor Laws' slave auctions. The new revolutionary thought of Paine, and the new Owenite praxis, were assimilated into the world view of people who shared the historical sense of a world not long since stolen out from under them.

Unlike the modern welfare state, whose relief of poverty is simply another way the capitalists' state cleans up their potentially destabilizing messes, the workers' welfare state served as a basis for working class independence from capital and wage labor, and as a leverage for increased bargaining power against it.

The friendly societies often functioned as a base for political and economic resistance on a broader scale. The friendly societies themselves were often the soil out of which the trade unions later grew. With their secrecy of ritual, their organizational form naturally lent itself to covert political and economic action. Union procedural rules, as well as their often deliberate ceremonial, were a direct outgrowth of those of sick clubs, Masonic

⁴⁵ Ibid., p. 423.

⁴⁶ Ibid., p. 194.

lodges, and the like.⁴⁷

And when the friendly societies' functions extended to support for the unemployed, the distinction from an outright strike fund was hazy, to say the least. The potential of benefit societies to improve the bargaining position of workers was very real. For example the Clerk's Society (founded Newcastle, 1807) paid unemployment benefits of ten shillings a week for the first 26 weeks, extendable for another 26 weeks at the Society's discretion.⁴⁸ It's easy to see why the state was so zealous to suppress such activity under the Combination Acts and legislation regulating the benefit societies. By providing an alternative to the dilemma of "accept work on the terms offered, or starve," they seriously undermined labor discipline and increased the independence of working people. As a survey of the enclosure movement shows us, capitalism, despite its official ideology of free markets and freedom of association, is ever willing to resort to coercion when the property and associations of ordinary people give them too much power.

The very distinction between the trade unions and other friendly or benefit societies is an artificial one, argues Bob James. The Left tends to treat trade unions as modern, while dismissing or marginalizing the broader culture of benefit societies (with their rites and regalia) as archaic or atavistic.

...[I]t makes much more historical sense to see the core of Labour History as a range of benefit societies, and to see what are called "trade unions" as just one culturally-determined response within a group and along a time-line....

What we now call "trade unions" were and are benefit societies, just like the Grand United Oddfellow and Freemason Lodges.... Concern about working conditions and the strategy of withdrawing labour, "going on strike", developed naturally out of the lodge habit of insuring against all sorts of other future dangers. Strike pay was just another benefit covered by contributions....⁴⁹

We have already seen, in Chapter Fifteen, the ways in which Owenite labor exchange systems were used by the trade unions to employ striking craft workers in production directly for barter.

The same pattern of interaction between the labor movement and self-organized institutions for mutual aid took place in the United States, according to Sam Dolgoff:

The labor movement grew naturally into a vast interwoven network of local communities

⁴⁷ Ibid., p. 421.

⁴⁸ Peter Gray, "A Brief History of Friendly Societies," at *The Association of Friendly Societies* website <<http://www.afs.org.uk/research/researchpgrayhistorypage.htm>> (The link is now defunct, but can be retrieved through the Internet Archive).

⁴⁹ Bob James, "The Tragedy of Labour History in Australia." According to Takver's *Radical Tradition: An Australian History Page*, where the article is hosted, the text is based on James' notes for a lecture given in several different venues. <<http://www.takver.com/history/tragedy.htm>>.

throughout the country, exercising a growing influence in their respective areas. And this early movement did not confine itself solely to immediate economic issues. Humanity is a social being. Cooperation, synonym for solidarity, is indispensable for survival and development. The mutual-aid functions of the unions expanded to keep abreast of the growing needs of the members. Neither the state nor the employers were concerned with the wants or feelings of the human beings whom they treated as mere commodities. So, the workers helped themselves by helping each other, spontaneously and as the need arose.

They created a network of cooperative institutions of all kinds: schools, summer camps for children and adults, homes for the aged, health and cultural centers, insurance plans, technical education, housing, credit associations, et cetera. All these, and many other essential services were provided by the people themselves, long before the government monopolized social services wasting untold billions on a top-heavy bureaucratic parasitical apparatus; long before the labor movement was corrupted by "business" unionism.⁵⁰

For this reason the friendly societies operated on the border of legality: the ruling class feared they would serve as a social and economic base for resistance, and as insulation against the immediate need for wage labor on whatever terms were offered by employers (in a manner analogous to that of the extended family, as described by Wallerstein). The Combination Laws were enforced by a police state apparatus, functioning completely outside the due process protections of the ordinary common law (e.g., examination under oath by magistrate, associated with the civil law methods of the prerogative courts that so horrified republicans on both sides of the Atlantic, was a common procedure).

Friendly societies existed as aboveground organizations, under the terms of the Friendly Societies Act, with severe constraints on federal organization at levels above the individual lodge--and outright prohibition of secret oaths. Their much larger underground extensions crossed the line into trade unionist activity prohibited until the repeal of the Combination Laws, into corresponding societies whose political agitation amounted to outright treason in the view of the ruling class, and into an entire range of counter-economic activity aimed either at organizing against factory employers or providing an independent basis for self-organized economic support.

When the formal society of the illegal union overlapped with the informal society of the taproom, in settings where (as Thompson observed) no gentleman was likely to intrude, and where a new face would stand out, the legal prohibitions on collective labor action were often unenforceable.

Secrecy must be seen as more than a matter of oaths and ceremonies; it involved, during the years of war and its aftermath, a whole code of conduct, almost a mode of consciousness. At work no leader or deputation need approach the employer with the men's demands; a hint

⁵⁰ Sam Dolgoff, "Revolutionary Tendencies in American Labor--Part 1," in *The American Labor Movement: A New Beginning*. Originally published in 1980 in *Resurgence*.
<<http://www.iww.org/culture/library/dolgoff/labor4.shtml>>

would be dropped, an overlooker would be prompted, or an unsigned note be left for the master to see. If the demands were not met, there was no need--in the small workshop--for a formal strike; men would simply drop away or singly give notice.

The natural leaders in the workplace, those "who possess the confidence of their fellows," needed only to drop a hint, as one contemporary observer noted, and the entire plan of action discussed previously in a social setting would be put into action--especially, we might note, the custom of "one and all [to] support those who may be thrown out of work."⁵¹

As with the voluntary associations mentioned above as the institutional basis for networks of social trust, it is likely that voluntary associations would regain their old function as the primary social safety net in a restored civil society. Much as informal social networks would fill the vacuum left by the state in guaranteeing trust and creditworthiness, the social infrastructure of lodges and other communal institutions would fill the void left by the central welfare state. Charles Johnson writes:

It's likely also that networks of voluntary aid organizations would be *strategically* important to individual flourishing in a free society, in which there would be no expropriative welfare bureaucracy for people living with poverty or precarity to fall back on. Projects reviving the bottom-up, solidaritarian spirit of the independent unions and mutual aid societies that flourished in the late 19th and early 20th centuries, before the rise of the welfare bureaucracy, may be essential for a flourishing free society, and one of the primary means by which workers could take control of their own lives, without depending on either bosses or bureaucrats.⁵²

Poul Anderson, in the fictional universe of his Maurai series, envisioned a post-apocalypse society in the Pacific Northwest coalescing around the old fraternal lodges, with the Northwestern Federation centered on lodges rather than geographical subdivisions as the component units represented in its legislature. The lodge emerged as the central social institution during the social disintegration following the nuclear war, much as the villa became the basic social unit of the new feudal society in the vacuum left by the fall of Rome. It was the principal and normal means for organizing benefits to the sick and unemployed, as well as the primary base for providing public services like police and fire.⁵³

One possibility is the resurrection of the guild (or whatever term you prefer for an association of workers for mutual support) as a basis for organizing mutual aid. Recall our discussion in Chapter Nine of the San Francisco Bay area AFL-CIO's experiments with basing union organization outside the workplace: i.e., creating cooperatively owned

⁵¹ Thompson, *Making of the English Working Class*, p. 514.

⁵² Charles Johnson, "Liberty, Equality, Solidarity: Toward a Dialectical Anarchism," in Roderick T. Long and Tibor R. Machan, eds., *Anarchism/Minarchism: Is a Government Part of a Free Country?* (Hampshire, UK, and Burlington, Vt.: Ashgate Publishing Limited, 2008).

⁵³ Poul Anderson, *Orion Shall Rise* (New York: Pocket Books, 1983).

temp agencies that would also function as "hiring halls" of sorts, along the same lines as those of the longshoremen's union. Other writers on labor issues have argued, on similar lines, that unions should shift their focus to attracting memberships on an individual basis, whether it be in bargaining units with no certified union or among the unemployed; they would do so by offering insurance and other services.

Thomas Malone discusses such possibilities at considerable length in *The Future of Work*, in exploring the implications of a free-agency economy of independent contractors. Like many popularizing writers on networked enterprise in the new economy (Tom "Outsource Everything" Peters most notorious among them), Malone can come across as a bit glib in his celebration of the new era of freedom. Unlike Peters, however, he acknowledges the real problems faced by workers in such an economy: the lack of job security and job-based benefits chief among them. And his proposals are intriguing:

Rather than relying on employers and governments to provide the benefits traditionally associated with a job, a new set of organizations might emerge to provide stable "homes" for mobile workers and to look after their needs as they move from job to job and project to project.

These organizations might be called societies, associations, fraternities, or clubs. But the word I like best is *guilds*, a term that conjures up images of the craft associations of the Middle Ages. Growing out of tradesmen's fraternities and mutual assistance clubs, medieval guilds served a number of functions. They trained apprentices and helped them find work.... They offered loans and schooling. And if misfortune struck, they provided an income for members' families....

Existing organizations already perform some of these functions today. Take the Screen Actors Guild. As much as 30 percent of the base pay of Screen Actors Guild members goes to the guild's benefits fund. In return, members get full health benefits (even in years when they have no work), generous pensions, and professional development programs.

Imagine an extended version of this arrangement, in which members pay a fraction of their income to a guild in good times in return for a guaranteed minimum income in bad times. Unlike conventional unemployment insurance, provided through a distant, impersonal bureaucracy, the unemployment benefits provided by a guild could go well beyond temporary cash payments. For instance, other guild members would have an incentive--and often the opportunity--to help fellow members find work. A guild would also have the means and the motivation to help its members gain new skills to remain economically productive as times change. Finally, the members would likely exert social pressure on unemployed colleagues who they felt weren't really trying to find work....

Companies have also traditionally helped their employees learn skills and, by assigning job titles and other kinds of credentials, signify to the world the capabilities of their workers. These kinds of services could also be provided by guilds. Lawyers and doctors, for instance, have professional societies that establish and monitor the credentials of practitioners and provide continuing educational opportunities. Unions have also had similar functions for years, helping craft workers progress from apprentice to journeyman to master craftsman.

Finally, many people today derive much of their identity from their employer.... If you work for a different organization every week, where will you get this sense of self? Your self-identity could come from your membership in a guild: "I am a member of the Institute of Electrical and Electronic Engineers," or "I am a member of the MIT Alumni Guild." Arguably, the shared profession of guild members offers a stronger basis for personal identity than does a large and heterogeneous corporation.⁵⁴

Malone sees the modern-day guilds arising from professional societies, labor unions, temp agencies, and alumni associations, among other existing organizations.⁵⁵

Of course the sense of stable identity Malone describes in the last paragraph quoted applies outside the narrow framework of the corporate economy he envisions. It would apply as well in an economy where the corporate walls had dissolved altogether in the information and entertainment industries, being replaced by peer production on an open culture model. In such an economy, where musicians and software designers commonly moved from one peer network project to another, their guild membership would be a source of continuing personal identification.

The credentialing function ties in with our discussion earlier in this chapter of voluntary certification bodies.

As counter-institutions under existing capitalism, this side of its terminal crises, such guild organizations would also increase the independence of labor and strengthen its bargaining power in the wage market, as mentioned in the section above on the informal economy, and in our discussion in Chapter Fifteen of the household subsistence economy as a basis for independence.

Another possible institutional basis for mutual aid was suggested by Chris Dillow: insurance, through "macro-markets," to pool risk on a large scale not only against unemployment, but against declining income or demand for entire professions.⁵⁶ The idea was originally proposed in a 1993 book by Robert Shiller, and elaborated in a 1999 article by Shiller, Eric van Wincoop, and Stefano Athanasoulis.⁵⁷

These so-called macro markets would be large international markets trading, in the form of futures contracts, long-term claims on major components of incomes shared by a large number of people or organizations. For example, in a macro market for the United States, an

⁵⁴ Thomas W. Malone, *The Future of Work: How the New Order of Business Will Shape Your Organization, Your Management Style, and Your Life* (Boston: Harvard Business School Press, 2004), pp. 84-87.

⁵⁵ *Ibid.*, pp. 87-88.

⁵⁶ Chris Dillow, *The End of Politics: New Labour and the folly of managerialism* (UK: Harriman House Ltd, 2007).

⁵⁷ Robert Shiller, Eric van Wincoop, and Stefano Athanasoulis, "Macro Markets and Financial Security," *Economic Policy Review: Federal Reserve Bank of New York* (April 1999)
<http://findarticles.com/p/articles/mi_qa5390/is_199904/ai_n21437806>.

investor could buy a claim on the U.S. national income and then receive, for as long as the claim is held, dividends equal to a specified fraction of U.S. national income. Such a claim is comparable to a share in a corporation, except that the dividend would equal a share of national income rather than a share of corporate profits. Such markets might exist for entire countries—the United States, Japan, and Brazil—or for regions such as the European Union and North America. Even a market for claims on the combined incomes of the entire world could be formed. Prices would rise and fall in these markets as new information about national, regional, or global economies became available, just as prices rise and fall in the stock market as new information about corporate profits is revealed.

The potential future importance of these markets is supported by the most basic principle of finance diversification. People could use macro markets to hedge their own national income risks and to invest in the rest of the world. This investment strategy would reduce income growth uncertainty and lead to a more secure financial future....

....Consider a person who earns income from wages and from returns on financial assets (such as stocks and bonds). The individual cares about the uncertainty of the future value of his or her total wealth, which is the sum of the future value of financial assets and the future value of "human capital." The value of human capital is equal to the present value of the stream of future wages earned by the individual.... Even if the individual were well diversified in the equity and bond markets, he or she would still be exposed to uncertainty associated with wages earned. Because wages plus noncorporate profits are at least nine times as great as corporate profits (in national income accounts), the largest component of wealth remains undiversified.

Let us further assume that the wealth of the individual is "average"—the value of the individual's financial assets is average and his or her wages are equal to the average wage rate in the country [or sector] plus an idiosyncratic component. The idiosyncratic component of wages depends on individual-specific effort as well as a dose of good or bad luck. Insuring against the idiosyncratic component is impossible because of moral hazard problems. If an individual were insured against all uncertainty about future wages, he or she would have little incentive to work hard and to put effort into a successful career.... Moral hazard problems do not apply to insuring oneself against uncertainty about [non-idiosyncratic components] because the individual has little control over the average wage rate earned in the country [or sector] as a whole....

This contract is attractive to a risk-averse individual because he or she will lose on the hedging contract only when the domestic economy is doing unexpectedly well. The individual will receive positive payments from the contract when the economy's [or sector's] performance is unexpectedly poor....

F. Education.

The nineteenth century working classes' self-organized institutions for mutual aid, described above, included significant educational efforts. Colin Ward cites Philip Gardner's *The Lost Elementary Schools of Victorian England*:

He found that what he called working-class schools, set up by working-class people in

working-class neighbourhoods, "achieved just what the customers wanted: quick results in basic skills like reading, writing and arithmetic, wasted no time on religious studies and moral uplift, and represented a genuinely alternative approach to childhood learning to that prescribed by the education experts". When the historian Paul Thompson discussed the implications of this book in *New Society* (6th December 1984) he concluded that the price of eliminating those schools had been "the suppression in countless working-class children of the very appetite for education and ability to learn independently which contemporary progressive education seeks to rekindle".⁵⁸

As described by Gardener, there was "a powerful identifiable working-class educational culture, with its own characteristic values, goals and practices, which was quite distinct from those officially prescribed."

Resistance to formal, institutionalized schooling was fed by the currents of this alternative culture which, more positively, also supported its own networks of independent practical educational activity. Until these were destroyed, the dominance of a provided system of elementary schooling "for" the working class could not be fully or finally completed. The depth and resilience of this alternative educational culture is demonstrated by its sustained popularity over time, and by its failure to die the natural death universally predicted for it.

Where was this alternative educational culture to be found? Not merely in organised movements like Owenism or Chartism, but... in the tradition of working-class private schooling.⁵⁹

Such a school was "private" through the absence of any financial and or institutional regulation beyond those of the parents who sent their children to it. And it was working class by the distinctive background and character of its pupils and their parents, and the majority of its teachers. But the most convenient and objective method of distinguishing a working-class private school from other private schools... was the calculation of average weekly fees. These were set at a maximum of 9d per week but were commonly considerably lower. Such schools possessed universal defining characteristics which market them off from the alternative publicly provided or sanctioned institutions.... As well as being self-financing, working-class private schools were completely beyond the reach or control of the Inspectorate. They responded naturally to demand from below and not the dictates of supply. The teachers... of such schools were generally without any kind of formal training or certification, and were... wholly self employed.... The schools were very rarely held in a building designed for the purpose, the majority being kept in the home of the teachers.... [Weekly attendance averaged] between 10 and 30. Segregation or formal grouping of the children on the basis of age, sex or ability was unusual, and teaching and learning took place on an individual and informal basis.⁶⁰

Such schools, which were prevalent from the early nineteenth century on, included "dames' schools" and "common day schools." In most of them the curriculum was limited

⁵⁸ Ward, "The welfare road we failed to take," p. 13. The quote is from Philip Gardner, *The Lost Elementary Schools of Victorian England* (Croom Helm, 1984).

⁵⁹ Philip Gardner, *The Lost Elementary Schools of Victorian England* (Croom Helm, 1984), p. 3.

⁶⁰ *Ibid.*, p. 12.

to reading and arithmetic, but a minority provided more diversified curricula including geography and history, among other things.⁶¹ Estimates of attendance in mid-century ranged from 130, 571 to 573,576.⁶² As of the Education Act of 1870, "something like a quarter" of elementary-school age children attended working class private schools. Their numbers rapidly dwindled afterward, in the face of crowding out effects from taxpayer funded schooling and the hostility of the educational establishment.⁶³

As in so many other areas, the radical monopoly of the educational establishment has distorted the growth of technique, promoting those techniques and technologies which are of service to centralized bureaucracies, and crowding out those which might be adapted to decentralized, bottom-up, networked organization.

Even so, with all the crowding out, the growth of networked computer technology has still provided means that might be adapted to self-organized learning. Again, as in so many other areas, the technologies the centralized system develops for its own ends inadvertently manage to produce offshoots that increase the relative productivity of decentralized activity, in ways that the centralized system cannot suppress. Even with the crowding out of decentralist technology by the state capitalist system's direction of resources, and with the skewing of technical development in a centralist direction, the greater efficiencies of self-directed and decentralized activity are sufficient to enable the counter-economy, using only the technological crumbs from state capitalism's table, to turn the system's own technology against it.

Well over thirty years ago Ivan Illich wrote, in *Deschooling Society*, of the educational possibilities of decentralized learning networks, based entirely on the telephone, photocopier, and tape recorder, years before anyone had any idea of the potential of the Internet. The development of computer networks, along with online libraries and databases, makes it far cheaper to move information to the learning site than to transport "human resources" to a central processing factory.

Here in Arkansas, a central issue of the 2006 gubernatorial campaign was how to deal with school consolidation, in the face of an earlier state Supreme Court finding that the state was constitutionally mandated to guarantee an equal quality of education to students in every school district. The Republican candidate, Asa Hutchinson, although odious in many ways, was entirely correct in recommending that decentralized information technology be used to move course material to the local school rather than students being bused to another district.

Two possible models for doing this are the wiki format (a good example is Wikiversity⁶⁴) and MIT's Open Courseware project. In math and language, the best texts

⁶¹ Ibid., p. 20.

⁶² Ibid., p. 50.

⁶³ Ibid., p. 188.

⁶⁴ http://en.wikiversity.org/wiki/Wikiversity:Main_Page

of all time are in the public domain, and many of them are reproduced online through open-source textbook projects. The public domain texts available to home-schoolers, unschoolers, and self-taught children are incomparably better than the dumbed-down, political consensus-determined, cut and paste textbooks churned out by publishers to the lowest common denominator standards of as many local school boards as possible, and then marketed to local school systems the same way Big Pharma markets drugs to doctors' offices.

Once we abandon the idea of schools as institutions run by "educational professionals," and of learning as an activity that takes place at a designated location under the supervision of these professionals, the possibilities for linking individual learners to sources of knowledge are almost infinite.

Proudhon, writing in the mid-19th century, wrote of breaking down barriers between the rest of society in ways that anticipated Ivan Illich. His provisions for technical training, for example, relied heavily on cooperation with the workers' associations.

Workers' associations have a very important role to play here. Linked to the system of public education, they will become both centers of production and centers for education. Fathers will continue to supervise their children. The working masses will be in daily contact with the youthful army of agricultural and industrial workers. Labor and study, which have for so long and so foolishly been kept apart, will finally emerge side-by-side in their natural state of union.

Proudhon described the school, in this system of apprenticeship, as "the bond between the industrial associations and families."⁶⁵

The integration of education into the community can be physical, as well as functional. In Claude Lewenz's Villages, classroom space--rather than being concentrated in some centrally located specimen of Stalinist architecture and serviced by a bus system --is decentralized throughout the community. He quotes Christopher Alexander's Pattern No. 18 (from *A Pattern Language*):

Instead of the lock-step of compulsory schooling in a fixed place, work in piecemeal ways to decentralise the process of learning and enrich it through contact with many places and people all over the city: workshops, teachers at home or walking through the city, professionals willing to take on the young as helpers, older children teaching younger children, museums, youth groups travelling, scholarly seminars, industrial workshops, old people and so on.

"The Village," Lewenz writes, "serves as a life-long classroom."

⁶⁵ *On the Political Capacity of the Working Classes* (1865), in *Selected Writings of Proudhon*. Edited by Stewart Edwards. Translated by Elizabeth Fraser (Garden City, N.Y.: Anchor, 1969), pp. 86-87; *General Idea of the Revolution in the Nineteenth Century*. Translated by John Beverly Robinson (New York: Haskell House Publishers, Ltd., 1923, 1969 [1851]), p. 274.

By decentralizing control of education to the primary community of a few thousand people, the Village can greatly reduce overhead. Lewenz again quotes Alexander on the elimination of expenses from overpriced, centrally located buildings and administrative salaries, and the use of the savings to reduce student-teacher ratios down to ten or so. He recommends building small schools, one at a time, located in the public part of the community (some of my readers may prefer the term Agora), "with a shopfront and three or four rooms."⁶⁶

One thought experiment I like to do: try to figure out the minimal tuition for a quality education, on the assumption that the parents of twenty or thirty kids pool their own money to form a cooperative school. Taking into account things like renting a house for class space, and hiring part-time teachers for different subject areas, the annual expense shouldn't go above \$1-2000 per pupil. That's assuming, of course, that the school abandons activities undertaken for prestige value, like participating in AAAA or AAA athletics and its counterpart in band. Heaven forbid the kids should have to organize pickup games with some balls and an empty lot, or participate in a "league" of other small independent schools in the same community. So how do existing "public" schools manage to spend upwards of \$6000? Most of the difference lies in the proliferation of parasitic bureaucrats with prestige salaries, and the fact that the state's aura of majesty requires specially designed Stalinist architecture on the most expensive real estate in town.

This is a common pattern, as we saw Paul Goodman observe in Chapter Four. When you try to figure out how much it would cost to organize a service for yourself, from the bottom up, and compare it to what you're paying now, it's stunning. Where does all the money go? It goes to support parasitic centralized bureaucracies with no incentive to economize. It's amazing how creative and thrifty ordinary people can be when they're spending their own money, instead of stolen loot.

Money is hardly the only thing wasted in the public schools. An incredible amount of available time is also wasted. Part of the reason is that, because of homework, the teacher is able to externalize learning time on the pupil at the expense of his home life and leisure, rather than maximizing use of available classroom time. One would think that six fifty minute periods (amounting to five solid hours of classroom time), five days a week, for nine months of the year, would be sufficient time to teach anyone anything--at least at the level of understanding the public schools aim at. But no--by the high school years, the average pupil may be assigned as many hours of homework as he spends in class.

The Borsodis' experiment in home schooling, at a time when such a thing was almost unheard of, demonstrated the immense waste of time involved in typical classroom learning:

⁶⁶ Lewenz, *How to Build a Village*, p. 119.

...[A]gain, individual production proved its superiority to mass production. Mrs. Borsodi found it possible to give the boys, in two hours' desk work, all the training which they were supposed to get, according to the state, in a whole school day plus the work which they were supposed to do at home.

The Borsodis used the official school curriculum and its assigned texts, so their experiment was controlled for identical subject matter. As counterintuitive as it might seem for homeschoolers to duplicate the state's inculcation of its official ideology as taught in the approved history and social studies texts, though, at least the drastic reduction in time wasted on the standard curriculum left a great deal of extra time for the meat of a real education: self-directed learning in pursuit of one's own interest. Once these two hours were dispensed with, the boys devoted the rest of their day to reading and play.⁶⁷

One of the few things I liked about Wesley Clark: when the press asked him if he was educated, he said "Yes; I read books." I'm sure he "clarified" that when the public educationist establishment jumped on him with both feet, and reassured them that "education" was a commodity to be secured from properly qualified "professionals."

Robert Pirsig, in *Zen and the Art of Motorcycle Maintenance*, describes the functioning of an education system when it becomes a tool for self-directed learning, rather than processing human resources for institutional consumers:

Phædrus' argument for the abolition of the degree-and- grading system produced a nonplussed or negative reaction in all but a few students at first, since it seemed, on first judgment, to destroy the whole University system. One student laid it wide open when she said with complete candor, "Of course you can't eliminate the degree and grading system. After all, that's what we're here for."

She spoke the complete truth. The idea that the majority of students attend a university for an education independent of the degree and grades is a little hypocrisy everyone is happier not to expose. Occasionally some students do arrive for an education but rote and the mechanical nature of the institution soon converts them to a less idealistic attitude.

The demonstrator was an argument that elimination of grades and degrees would destroy this hypocrisy. Rather than deal with generalities it dealt with the specific career of an imaginary student who more or less typified what was found in the classroom, a student completely conditioned to work for a grade rather than for the knowledge the grade was supposed to represent.

Such a student, the demonstrator hypothesized, would go to his first class, get his first assignment and probably do it out of habit. He might go to his second and third as well. But eventually the novelty of the course would wear off and, because his academic life was not his only life, the pressure of other obligations or desires would create circumstances where

⁶⁷ Borsodi, *Flight From the City*, pp. 86-87.

he just would not be able to get an assignment in.

Since there was no degree or grading system he would incur no penalty for this. Subsequent lectures which presumed he'd completed the assignment might be a little more difficult to understand, however, and this difficulty, in turn, might weaken his interest to a point where the next assignment, which he would find quite hard, would also be dropped. Again no penalty.

In time his weaker and weaker understanding of what the lectures were about would make it more and more difficult for him to pay attention in class. Eventually he would see he wasn't learning much; and facing the continual pressure of outside obligations, he would stop studying, feel guilty about this and stop attending class. Again, no penalty would be attached.

But what had happened? The student, with no hard feelings on anybody's part, would have flunked himself out. Good! This is what should have happened. He wasn't there for a real education in the first place and had no real business there at all. A large amount of money and effort had been saved and there would be no stigma of failure and ruin to haunt him the rest of his life. No bridges had been burned.

The student's biggest problem was a slave mentality which had been built into him by years of carrot-and-whip grading, a mule mentality which said, "If you don't whip me, I won't work." He didn't get whipped. He didn't work. And the cart of civilization, which he supposedly was being trained to pull, was just going to have to creak along a little slower without him.

This is a tragedy, however, only if you presume that the cart of civilization, "the system," is pulled by mules. This is a common, vocational, "location" point of view, but it's not the Church attitude.

The Church attitude is that civilization, or "the system" or "society" or whatever you want to call it, is best served not by mules but by free men. The purpose of abolishing grades and degrees is not to punish mules or to get rid of them but to provide an environment in which that mule can turn into a free man.

The hypothetical student, still a mule, would drift around for a while. He would get another kind of education quite as valuable as the one he'd abandoned, in what used to be called the "school of hard knocks." Instead of wasting money and time as a high-status mule, he would now have to get a job as a low-status mule, maybe as a mechanic. Actually his real status would go up. He would be making a contribution for a change. Maybe that's what he would do for the rest of his life. Maybe he'd found his level. But don't count on it.

In time...six months; five years, perhaps...a change could easily begin to take place. He would become less and less satisfied with a kind of dumb, day-to-day shopwork. His creative intelligence, stifled by too much theory and too many grades in college, would now become reawakened by the boredom of the shop. Thousands of hours of frustrating mechanical problems would have made him more interested in machine design. He would like to design machinery himself. He'd think he could do a better job. He would try modifying a few engines, meet with success, look for more success, but feel blocked because he didn't have

the theoretical information. He would discover that when before he felt stupid because of his lack of interest in theoretical information, he'd now find a brand of theoretical information which he'd have a lot of respect for, namely, mechanical engineering.

So he would come back to our degreeless and gradeless school, but with a difference. He'd no longer be a grade-motivated person. He'd be a knowledge-motivated person. He would need no external pushing to learn. His push would come from inside. He'd be a free man. He wouldn't need a lot of discipline to shape him up. In fact, if the instructors assigned him were slacking on the job he would be likely to shape them up by asking rude questions. He'd be there to learn something, would be paying to learn something and they'd better come up with it.

Motivation of this sort, once it catches hold, is a ferocious force, and in the gradeless, degreeless institution where our student would find himself, he wouldn't stop with rote engineering information. Physics and mathematics were going to come within his sphere of interest because he'd see he needed them. Metallurgy and electrical engineering would come up for attention. And, in the process of intellectual maturing that these abstract studies gave him, he would be likely to branch out into other theoretical areas that weren't directly related to machines but had become a part of a newer larger goal. This larger goal wouldn't be the imitation of education in Universities today, glossed over and concealed by grades and degrees that give the appearance of something happening when, in fact, almost nothing is going on. It would be the real thing.⁶⁸

G. Healthcare

Healthcare is yet another case in which working class self-organized alternatives have been suppressed by capital and the state.

We already saw, in our general discussion above of friendly societies, E. P. Thompson's account of sick benefit societies.

As Colin Ward writes, commenting on David Green's account of self-governing working class medical societies, history shows that "the self-organisation of patients provided a rather better degree of consumer control of medical services" than was achieved under the NHS.⁶⁹

The Tredegar Medical Aid Society, founded in 1870, was a good example. It was funded by a subscription of "three old pennies in the pound from the wage-packets of miners and steelworkers," and at one time employed "five doctors, a dentist, a chiropodist and a physiotherapist," along with a hospital that served 25,000 people.⁷⁰

⁶⁸ Robert M. Pirsig, *Zen and the Art of Motorcycle Maintenance: An Inquiry Into Values*.

⁶⁹ Ward, "The welfare road we failed to take," p. 14.

⁷⁰ *Ibid.*, p. 15.

As we saw above, Tim Evans quoted an estimate by the Chief Registrar of Friendly Societies in 1892 that 3.8 million of 7 million industrial workers were insured against sickness through a registered friendly society, while at least another 3 million belonged to unregistered societies.⁷¹ Membership in registered friendly societies grew from 2.8 million in 1877 to 6.6 million in 1910 (in addition to those in unregistered societies), and Greene estimates total friendly society insurance coverage in 1910 at 9 to 9.5 million out of the 12 million covered by the National Insurance Act of 1911.

The first nail in the coffin of the workers' self-organized healthcare system was the National Insurance Act. Lloyd George originally envisioned it as "a way of extending the benefits of friendly society membership, already freely chosen by the vast majority of workers, to *all* citizens, and particularly those so poor they could not afford the modest weekly contributions."⁷² Or as Ward put it, the goal was to create "one big Tredegar."

George's original proposal was distorted beyond recognition in the House of Commons by a coalition, "hostile to working-class mutual aid," of the British Medical Association and an insurance industry trade association known as the Combine. Amendments obtained under their influence eliminated all vestiges of democratic self-organization, and instead vested administration in "bodies heavily under the influence of the medical profession." They limited panel doctors to registered practitioners, thus greatly strengthening the licensing bodies' monopoly. They also eliminated any threat that working-class bargaining power would be used to keep physicians' fees within a range affordable to ordinary manual workers--from the physicians' standpoint, the worst outrage of the old friendly societies. Instead, doctors' incomes were doubled and financed by a regressive poll tax.⁷³ The organized medical profession also used the GMC, the primary licensing body, to "ban conduct which helped the consumer to differentiate between doctors," like advertising.⁷⁴

The final blow came from the National Health Service, established in 1948, which nationalized delivery of service in addition to finance.

Although mutual provision of healthcare was not as extensive in America, it still included a considerable portion of the population. Certainly, as David Beito points out, self-help efforts organized through mutuals "dwarfed the efforts of formal social welfare agencies."⁷⁵ An 1891 study by the Connecticut Bureau of Labor Statistics found that membership in fraternal insurance orders was 15% of the general population. Of these,

⁷¹ Tim Evans, "Socialism Without the State." Political Notes No. 99 (London: Libertarian Alliance, 1994). <<http://www.libertarian.co.uk/lapubs/polin/polin099.pdf>>

⁷² David Green, *Working-Class Patients and the Medical Establishment: Self-Help in Britain from the Mid-Nineteenth Century to 1948* (Aldershot, UK: Gower/Temple, 1986), p. 2.

⁷³ *Ibid.*, pp. 2, 108.

⁷⁴ *Ibid.*, p. 132.

⁷⁵ David Beito, *From Mutual Aid to the Welfare State: Fraternal Societies and Social Services, 1890-1967* (Chapel Hill and London: The University of North Carolina Press, 2000), p. 19.

60% were sick and funeral benefit orders, and 28% life insurance societies. But the study included only bodies specifically formed for the provision of insurance, and not other fraternal orders (like Masons, Elks, Patrons of Husbandry, etc.) which provided insurance as a standard benefit of membership. If the latter were included, the total membership was greater than the total male population.⁷⁶ Putting all the figures together, it's quite plausible that a majority of the male population belonged to organizations which provided sick benefits (although wives and children were often eligible, they did not count toward membership totals). In Chicago, a 1919 study by the Illinois Health Insurance Commission found that 38.8 percent of wage-earning families carried life insurance through fraternal organizations, which suggests--if the Connecticut ratios are taken as typical--that an even larger portion had sick benefits.⁷⁷ Black families at that time were noted for obtaining life insurance from private firms, but sick benefits from fraternal societies. In Chicago over four in ten blacks had sick benefits. Similar figures obtained for black populations in Philadelphia and Kansas City.⁷⁸

The provision of healthcare through fraternal orders was not limited to insurance. Many lodges kept a physician on retainer for their membership, financed by a modest subscription fee: the so-called "lodge practice." This evoked strong antipathies from the medical community ("lodge practice evil" was a stock phrase in the medical journals).⁷⁹ As Roderick Long put it,

Eighty years ago, Americans were also told that their nation was facing a health care crisis. Then, however, the complaint was that medical costs were too *low*, and that health insurance was too *accessible*. But in that era, too, government stepped forward to solve the problem. And boy, did it solve it!...

The response of the medical establishment, both in America and in Britain, was one of outrage; the institution of lodge practice was denounced in harsh language and apocalyptic tones. Such low fees, many doctors charged, were bankrupting the medical profession. Moreover, many saw it as a blow to the dignity of the profession that trained physicians should be eagerly bidding for the chance to serve as the hirelings of lower-class tradesmen. It was particularly detestable that such uneducated and socially inferior people should be permitted to set fees for the physicians' services, or to sit in judgment on professionals to determine whether their services had been satisfactory.⁸⁰

As with insurance through friendly societies, the United States also lagged behind the British and Australians in lodge practice. In the latter countries more than half of wage earners before World War I may have had access to physicians' services through lodge

⁷⁶ Ibid., pp. 14-15.

⁷⁷ Ibid., p. 22.

⁷⁸ Ibid., p. 25.

⁷⁹ This is the subject of an entire chapter in Beito's book, pp. 109-129.

⁸⁰ Roderick T. Long, "How Government Solved the Health Care Crisis: Medical Insurance that Worked — Until Government 'Fixed' It," *Formulations*, Winter 1993/94.

practice.⁸¹ It was, nevertheless, quite prevalent. The New York City health commissioner, in 1915, observed that in many communities, lodge practice was "the chosen or established method of dealing with sickness among the relatively poor."⁸² In Seattle, lodge members eligible for treatment by a lodge physician amounted to some 20% of the adult male population.⁸³ This was, remember, in addition to the number of people who obtained medical *insurance* through friendly societies and mutuals.

The cost of coverage through lodge practice averaged around \$2 a year--roughly a day's wage--and some lodges offered coverage for family members for the same rate. And this was the typical charge for a single house call by a fee-for-service physician at the time. What's more, the competition from lodge practice probably resulted in lower fees for the services of physicians in private practice.⁸⁴ That was, perhaps, one reason for the medical profession's strong resentment. Nevertheless, the practice appealed to doctors, especially those starting out, by offering a large and stable patient base.⁸⁵

The medical profession launched a full-scale assault on lodge practice, causing a "steep decline" by the 1920s. State medical societies imposed sanctions on doctors who accepted lodge contracts, in some cases barring them from membership.⁸⁶ The campaign was still more strident at the county level, with pressure to sign anti-lodge practice pledges, or pledges not to charge fees less than the standard, and expulsions or boycotts of offenders. Hospitals were also pressured into boycotting those who engaged in lodge practice.⁸⁷ The profession also attacked the "problem" from the other end, remedying the perceived "oversupply" of doctors that made the terms of lodge practice so attractive to some physicians. Between 1910 and 1930, the number of physicians per 100,000 people shrank from 164 to 125, largely because of increasingly stringent state licensing requirements, and because of a reduction in the number of medical schools (by more than half between 1904 and 1922).⁸⁸ Finally, the rise of group insurance, starting with the Equitable Life Assurance Society's first large group insurance policy in 1912, was another major blow to both lodge practice and friendly society insurance. State legislation impeded the adoption of group insurance by lodges.⁸⁹

Some fraternal organizations also organized their own clinics and hospitals. The Workmen's Circle in New York City, for example, organized district clinics into a citywide Medical Department with a wide array of specialist services. The Independent Order of Foresters had a similar venture in, among other places, California and Ontario.⁹⁰

⁸¹ Beito, *From Mutual Aid to the Welfare State*, pp. 109-110.

⁸² *Ibid.*, p. 110.

⁸³ *Ibid.*, p. 111.

⁸⁴ *Ibid.*, p. 117.

⁸⁵ *Ibid.*, pp. 117-118.

⁸⁶ *Ibid.*, p. 124.

⁸⁷ *Ibid.*, p. 125.

⁸⁸ *Ibid.*, p. 128.

⁸⁹ *Ibid.*, pp. 211-212, 231.

⁹⁰ *Ibid.*, p. 165.

The Women's Benefit Association (formerly Ladies of the Maccabees, a women's adjunct of the Knights of the Maccabees) established health service centers with visiting nurses (38 of them by 1934, in seventeen states and one Canadian province).

Any suggestion of returning to a reliance on friendly societies or mutuals as the primary source of healthcare funding today will likely meet with the objection that per capita costs are far higher, as a percentage of per capita income, than they were in the heyday of sick benefit societies and lodge practice. It's a valid point, but those who raise it approach the issue from the wrong direction. They use the present level of healthcare costs to argue that only government financing can meet the challenge. In fact, however, before we address the question of finance at all, we must first address the reasons that the present cost of healthcare is so inflated.

As enthusiastic as I am in my support for cooperative financing of healthcare, a cooperative approach to finance alone is inadequate. We must also organize alternative methods for delivery of service, and eliminate the state-supported monopolies that affect the price of medicine, medical technology and service providers.

The root of the problem is that the state, through such forms of artificial scarcity as drug patents and the licensing cartels, makes certain forms of practice artificially lucrative. In other words, it creates a honey pot. Is it any wonder that the standard model of practice gravitates toward the honey pot?

Drug patents, for example, create a pressure toward the use of new, patented drugs and the crowding out of older, generic drugs. Most drug company R&D is geared toward the production of "me, too" drugs, which involve only a minor tweaking of the same basic chemical formula as an existing drug, with at best marginal improvements. But these new drugs have the advantage of being patentable, so that they can replace what are essentially older versions of the same drugs whose patents are about to expire. The next step is for drug company reps to propagandize the delivery of service side of things. This is facilitated by the fact that most medical research is carried out in prestigious med schools, clinics and research hospitals whose boards of directors are also senior managers or directors of drug companies. And the average GP's knowledge of new drugs, after he gets out of med school, comes from drug company literature handed out by the Pfizer or Merck rep who drops by now and then. Drug companies can also pressure doctors indirectly through their influence on the medical associations' standards of practice, or even legislative mandates (see Gardasil). Any doctor who departs from the standard "drug 'em and cut 'em" model of practice (for example, using nutritional supplements--like Co-Enzyme Q-10 for congestive heart failure--as a primary treatment) had better remember the state licensing board has its eye on him.

Defenders of drug patents point to the need for recouping the high cost of research and development. But in fact, most drug company R&D costs actually result from gaming the patent system: rather than doing only the testing necessary to patent the actual version of the drug being marketed, the drug company does sufficient testing to

secure patent lockdown on all the variants a competitor might attempt to market.⁹¹

The licensing cartels outlaw competition between multiple tiers of service, based on the consumer's preference and resources. A lot of free market advocates, in describing the causes of medical inflation, like to use the "food insurance" analogy to show why third party payments eliminate price competition: when your insurer only requires a small deductible for each trip to the supermarket, you'll probably buy a lot more T-bones. Unfortunately, what we have now is a system where the government, Big Pharma, and the license cartels act in collusion to make sure that only T-bones are available, the slaughterhouses get half their income from Medicaid and Medicare, and the uninsured wind up bankrupting themselves to eat. A lot of uninsured people would probably like access to less than premium service that they could actually afford.

Twenty-seven out of fifty states in the U.S. do not allow independent practice by mid-level clinicians like advanced practice nurses and physicians' assistants without a doctor's "oversight or collaboration," although most allow nurse practitioners to write prescriptions.⁹² In fact, the MD's "supervision," more likely than not, will consist of sanctifying the clinic with his presence somewhere in the building for part of the day (and adding the cost of his medical education and living expenses to the clinic's overhead cost) as the nurse practitioner single-handedly examines and evaluates the patient and prescribes treatment. State medical and dental associations fight, tooth and nail, state legislation to expand the range of services that can be performed independently by mid-level clinicians. A good example is the proposal to allow dental hygienists to clean teeth in independent practices: the dental associations are death on the subject. The mid-level clinicians themselves are equally venal, however, seeking state legislatively mandated education requirements for licensing that have little to do with performing their primary services. Mid-level clinicians associations, in many states, attempt to mandate masters degree or doctorate as a prerequisite for practicing.

For example, states increasingly require new NPs to obtain a master's degree. All states require physical therapists to have a master's degree. The American Association of Colleges of Nursing wants states to require a Doctor of Nursing Practice degree of all new advance practice nurses by 2015. A new law requires physician assistants to have a masters or higher degree to practice in Ohio. Every state has required a master's degree of occupational therapists since 2007.

Starting in 2012, California will require new audiologists to have obtained a doctorate (Au.D.), raising concerns that the legislation would exacerbate a shortage of audiologists. The legislation followed a move by the American Speech-Language-Hearing Association, the organization that accredits college audiology programs, to require a doctorate for professional certification. Questioning both why California legislators rushed to comply and

⁹¹ Kevin Carson, "The High Cost of Developing Drugs," *Mutualist Blog: Free Market Anti-Capitalism*, May 22, 2006 <<http://mutualist.blogspot.com/2006/05/high-cost-of-developing-drugs.html>>.

⁹² Shirley Svorny, "Medical Licensing: An Obstacle to Affordable, Quality Care," *Cato Policy Analysis* No. 621, p. 3. <<http://www.cato.org/pubs/pas/pa-621.pdf>>.

whether even a master's degree is necessary to test someone's hearing, the *Sacramento Bee* called the requirement for a doctorate an "extraordinary and costly mandate."⁹³

And all this licensing is of little avail. Licensing boards are frequently quite negligent in disciplining members of their professions.

A study of Florida physicians with malpractice payouts over \$1 million found that only 16 percent had been sanctioned by the state medical board. Among physicians who made 10 or more malpractice payments between 1990 and 2005, only *one-third* were disciplined by their state boards.

Further complicating the disciplinary process, state boards are reluctant to pull a license or make public the results of an investigation due to the financial consequences for the sanctioned professional. Just issuing formal charges against a physician, which become public record, affect a doctor's reputation and potential income.

As a result of these forces, formal disciplinary actions typically do not focus on improper or negligent care. Instead, the bulk of disciplinary actions involve inappropriate prescription of controlled substances, drug and alcohol abuse, mental illness, sexual improprieties and other issues. Researchers have found a high rate of repeat offenders among physicians sanctioned by state medical boards, suggesting that licensing does not deal with offenders in an effective way.

The licensing system also comes up short in the area of reporting substandard care to the public. There are often long delays. California reports an average of 934 days in getting a case to judicial review. To avoid the high costs of lengthy hearings, boards routinely negotiate voluntary settlements for lesser offenses. In the Federation of State Medical Boards' database, the nature of the investigation is not recorded in more than 65 percent of cases that ended in sanctions between 1994 and 2002. In those cases, the state board and the physician entered an agreement without the physician being found guilty. These dynamics deny consumers information that would help them avoid low-quality physicians.

Licensing, then, does little to prevent clinicians from rendering improper or negligent medical care. Disciplinary actions are not primarily related to the quality of medical care per se, and many disciplinary actions are kept below the public radar. If, as some suggest, concerns about financial and reputational consequences diminish efforts to discipline clinicians formally or publicly, or encourage confidential consent agreements, then one might conclude that licensure offers more protection to malfeasant clinicians than to consumers....

A closer look suggests that most patient protections are unrelated to state licensing. Concern over reputation and potential liability for medical malpractice creates incentives for private efforts to assess clinician knowledge, skills and competence that well exceed those associated with state licensing. Indeed, health care providers regularly review information on their clinicians that is broader and more up-to-date than information associated with licensure. At the point of care, hospitals and other institutions dictate what services each

⁹³ Ibid., pp. 4-5.

individual clinician may provide. On top of that, the structure of medical malpractice liability insurance rates creates some incentives for providers to avoid medical errors and other negligent care.⁹⁴

The licensing cartels outlaw one of the most potent weapons against monopoly: product substitution. Much of what an MD does doesn't actually require an MD's level of training. Imagine a private system of accreditation with multiple tiers of training. An American-style "barefoot doctor" at a neighborhood cooperative clinic might, for example, be trained to set most fractures and deal with other common traumas, perform an array of basic tests, and treat most ordinary infectious diseases. He might be able listen to your symptoms and listen to your lungs, do a sputum culture, and give you a run of Zithro for your pneumonia, without having to refer you any further. And his training would also include identifying situations clearly beyond his competence that required the expertise of a nurse practitioner or physician.

Healthcare facilities must be licensed as well. Thirty-five states require a "certificate of need" before a new hospital can be built in an area--and as you might expect, existing providers have some of the loudest voices in the approval process.⁹⁵ The same is true of nursing homes, an industry in which new facilities cannot be built unless the government recognizes a sufficient unmet need--and an industry, perhaps not coincidentally, in which there are waiting lists and patients are frequently turned away.

In my town of Springdale, Arkansas a couple of years ago, the state closed down an unlicensed adult daycare facility (Reflections Memory Care)--a small operation run out of the home of its owner, Judith Hollows. It cared for only a couple of elders a day, at a modest price, and their family members described it as a "godsend." Again, as you might expect, the state acted on the complaint of a nursing home administrator:

Deanna Shackelford, administrator of the Springdale Health and Rehabilitation Center, complained to city code enforcement that Hollows was operating without a permit.⁹⁶

This was yet another example of provision of goods in the informal household sector, with little or no overhead costs and little risk of going out of business, because of the fact that it operated mainly on the spare capacity of capital goods that the operator would have had to own for her own subsistence in any case. To repeat the lesson yet again, one of the central functions of licensing and regulation is to criminalize such self-organized production using the spare capacity of ordinary household capital, in order to render us dependent on the services of "professionals" purchased with the proceeds of wage labor.

⁹⁴ Ibid., pp. 7-8.

⁹⁵ Michael F. Cannon and Michael D. Tanner, *Healthy Competition: What's Holding Back Health Care and How to Free It* (Washington, D.C.: The Cato Institute, 2005), p. 137

⁹⁶ Richard Massey, "Springdale: Caregiver of Senile Fights City Hall," *Arkansas Democrat-Gazette* (Northwest Arkansas edition), December 2, 2007 <<http://www.nwanews.com/adg/News/209363/>>.

The same tendency of service delivery to gravitate toward the honey pot occurs in the field of medical technology. According to a *New York Times* article by Alex Berenson and Reed Abelson, hospitals invest in extremely expensive CT scanners, despite the fact that most CT scans are unnecessary and have little or no proven benefit. "CT scans, which are typically billed at \$500 to \$1,500, have never been proved in large medical studies to be better than older or cheaper tests." But hospitals nationwide have invested in thousands of the million-dollar machines; and as San Francisco cardiologist Andrew Rosenblatt says, "[i]f you have ownership of the machine, ...you're going to want to utilize the machine"--even if it means a provider has to "give scans to people who might not need them in order to pay for the equipment."

Increasing use of the scans, formally known as CT angiograms, is part of a much larger trend in American medicine. A faith in innovation, often driven by financial incentives, encourages American doctors and hospitals to adopt new technologies even without proof that they work better than older techniques. Patient advocacy groups and some doctors are clamoring for such evidence. But the story of the CT angiogram is a sobering reminder of the forces that overwhelm such efforts, making it very difficult to rein in a new technology long enough to determine whether its benefits are worth its costs.

Some medical experts say the American devotion to the newest, most expensive technology is an important reason that the United States spends much more on health care than other industrialized nations — more than \$2.2 trillion in 2007, an estimated \$7,500 a person, about twice the average in other countries — without providing better care.

No one knows exactly how much money is spent on unnecessary care. But a Rand Corporation study estimated that one-third or more of the care that patients in this country receive could be of little value. If that is so, hundreds of billions of dollars each year are being wasted on superfluous treatments....

The problem is not that newer treatments never work. It is that once they become available, they are often used indiscriminately, in the absence of studies to determine which patients they will benefit.

Some new treatments, like the cancer drug Gleevec and implantable heart defibrillators, undoubtedly save lives, contributing to the United States' reputation for medical breakthroughs. But others — like artificial spinal disks, which can cost tens of thousands of dollars to implant but have not been shown to reduce back pain in many patients, and Vytarin, a new cholesterol drug that costs 20 times as much as older medicines but has not been proved superior — have been criticized for not justifying their costs....

Already, more than 1,000 hospitals and an estimated 100 private cardiology practices own or lease the \$1 million CT scanners, which can be used for the angiograms and for other imaging procedures. Once they have made that investment, doctors and hospitals have every incentive to use the machines as often as feasible. To pay off a scanner, doctors need to conduct about 3,000 tests, industry consultants say.

Fees from imaging have become a significant part of cardiologists' income — accounting for half or more of the \$400,000 or so that cardiologists typically make in this

country, said Jean M. Mitchell, an economist at Georgetown University who studies the way financial incentives influence doctors....

[Economist Jean M.] Mitchell said cardiologists simply practice medicine the way the health system rewards them to. Given the opportunity to recommend a test for which they will make money, the doctors will.

“This is not greed,” she said. “This is normal economic behavior.”⁹⁷

As we saw in Chapters Eleven and Fifteen, that's a general phenomenon: anything that drives up the cost of capital investments required for entering a line of business, will also drive the business into a push model of service to maximum utilization of the capital in order to minimize unit costs from overhead.

Arnold Kling observes that medical conditions which, thirty years ago, would have been treated "empirically" at low cost, now routinely rely on expensive CAT scans and MRIs. He mentions the case of a patient with an eye inflammation. Thirty years ago the low-cost empirical treatment would have been to send her home, in the absence of a firm diagnosis, with antibiotics and prednisone and see if that took care of it. Thanks to modern technology, she was put through a battery of inconclusive tests, then given a series of CAT scans (also inconclusive)--and finally sent home, in the absence of a firm diagnosis, with antibiotics and prednisone.⁹⁸ Kling also describes his own experience:

During a routine physical examination, the lab that examined my urine sample found microscopic amounts of blood. This condition, known as microhematuria, can be a symptom of a number of serious illnesses, including bladder cancer.

However, the incidence of bladder cancer is very low among nonsmoking men under the age of 50. Moreover, microhematuria is present in between 10 and 15 percent of the healthy population. Finally, I had a history of occasional microhematuria, going back to my childhood. Using Bayes' Theorem..., I calculated that my chances of having bladder cancer were lower than that of a male age 60 *without* hematuria. Nonetheless, after much argument back and forth, my doctor insisted that I undergo a cystoscopy procedure. The results were negative.⁹⁹

What Kling calls "premium medicine" has completely crowded out empirical treatment, and become the routine practice for everyone--even though it benefits only a very tiny minority of patients who would not have responded to empirical treatment. For example, everyone with a severe cough is likely to be subjected to a chest X-ray, despite the fact that 998 out of a thousand likely have a bronchial infection that will respond to

⁹⁷ Alex Berenson and Reed Abelson, "The Evidence Gap: Weighing the Costs of a CT Scan's Look Inside the Heart," *New York Times*, June 29, 2008. <<http://www.nytimes.com/2008/06/29/business/29scan.html>>

⁹⁸ Arnold Kling, *Crisis of Abundance: Rethinking How We Pay for Health Care* (Washington, D.C.: The Cato Institute, 2006), pp. 8-9.

⁹⁹ *Ibid.*, p. 39.

simple treatment with antibiotics.¹⁰⁰ It's quite likely that the forty million insured would love to have access to a policy that covered the low-cost, empirical options, provided at cost; but to return to our "food insurance" analogy, the system skews delivery of service so that only T-bones are available, even for those who can afford only hamburger. And insurance costs are driven up for everyone by making T-bones the main item on the menu. The industry follows the premium medicine model of service delivery, and crowds empirical treatment out of the market, despite the tens of millions of people for whom access to empirical treatment would be a vast improvement over nothing.

These tendencies are exacerbated by the fact that the state, through regulatorily cartelized systems of insurance and delivery, breaks the direct market relationship between purchaser and supplier. The system runs on third party payments and cost-plus accounting, which means that those making the decisions regarding healthcare delivery have precious little incentive to economize.

Michael Cannon and Michael Tanner argue that third-party payment distorts or conceals the price signals that would be sent in a free market by patients shopping for services with their own money. As "patients take less care to weigh the expected costs and benefits of medical care," providers have far less incentive to minimize costs per unit of service in order to offer a competitive price. Rather, with fixed payments for service from third-party payers, providers have an incentive to minimize quality and pocket the difference. "It should come as little surprise, then, that in practice, patients often receive substandard or unnecessary care." An *NEJM* study found that patients received "the generally accepted standard of preventive, acute, and chronic care" only 55% of the time. And third-party payments increase the incentive to pad the bill with unnecessary procedures, since patients do not bear the cost.¹⁰¹ The medical ethic is replaced by a "veterinary ethic, which consists of caring for the sick animal not in accordance with its specific medical needs, but according to the requirements of its master and owner, the person responsible for paying any costs incurred."¹⁰²

Anyone who's ever been in the hospital or made a trip to the ER is familiar with this phenomenon. The hospital bill will be padded with long lists of tests and procedures that the patient has no memory whatsoever of authorizing, and will be followed by a long series of bills from clinics for tests and consultations which the patient likewise never explicitly approved. And as someone who's experienced the system both as a hospital worker and as a patient, I'm quite familiar with the incentives to mutual logrolling between physicians, calling each other in on consultations on the flimsiest of pretexts; it's the same good ol' boy system by which academicians assign each other's textbooks to their classes. The fact that the U.S. healthcare system has the highest ratio of specialists to generalists in the industrialized world doesn't help matters.

¹⁰⁰ Ibid., pp. 12-13.

¹⁰¹ Cannon and Tanner, *Healthy Competition*, pp. 55-56.

¹⁰² Ibid., p. 57

The cumulative effect of all these policies is what Ivan Illich called “radical monopoly.” The state-sponsored crowding-out makes other, cheaper (and often more appropriate) forms of treatment less usable, and renders cheaper (but adequate) treatments artificially scarce. Centralized, high-tech, and skill-intensive ways of doing things make it harder for ordinary people to translate their own skills and knowledge into use-value.

One possibility of promoting cooperative delivery of service is to transform the public's theoretical ownership of community nonprofit hospitals, where it exists, into real ownership. A good example is the hospital where I work now. It was founded as a community nonprofit in the early 1950s. The people of the community had subscription drives, had bake sales, all that other Norman Rockwell stuff, to raise funds to build a hospital. And they were damn proud of it, and had every right to be. It was *their* hospital.

The problem was, it wasn't run like something that truly belonged to the community. Its board of directors was made up of the same usual suspects, the riff-raff from the City Council and Chamber of Commerce, who run everything else in town. It was organized on the typical corporate model that Paul Goodman described in *People or Personnel*: Weberian rationality, top-heavy hierarchy, high overhead costs, mission statements, "best practices," and management by résumé carpetbaggers with prestige salaries.

When mission statements were the flavor of the week, they wrote the best mission statement money could buy (and have since repeatedly attempted to address problems of patient satisfaction and employee morale by writing *new* mission statements to pay lip service to). They parroted all the Kwality and Six Sigma jargon, and jumped on the ISO-9000 bandwagon--and never had a clue what any of it meant. They couldn't tell the actual ideas of Deming or Juran from those of Taylor. Right next to their bulletin board covered with "Plan Do Check Act" jargon and “process variation” graphics, was another bulletin board filled with the behavioral approach to eliciting increased productivity through what Deming contemptuously dismissed as “slogans and exhortations, and revival meetings” and Drucker called "management by drives"--and they were too ass-brained stupid to understand that the two were diametrically opposed in principle.

Finally, in the 90s, one of the last CEOs of the independent hospital completely ran it into the ground, so that his successor wound up selling it to a for-profit corporate hospital chain. Since then, this hospital has passed from one corporate owner to another, like a drunken sorority chick pulling a train, with each new group of corporate pigs looking to hollow it out a bit more and line their own pockets before passing it on to the next bunch of corporate pigs. They have taken something that the people of my town were proud of, and thought of as their own--and shit on it.

Since then, like typical pointy-haired bosses, they have gutted human capital in one downsizing after another, poured capital into ill-advised investments undertaken mainly for their prestige value, and all the other stuff straight out of the MBA Playbook. Their focus is on being the first to offer new, ultra-expensive specialties that benefit only a

small percentage of the population, or to buy extremely expensive high-tech equipment of limited use (like a Da Vinci surgical robot that cost several hundred thousand dollars). The idea is that you can experience the world of the *Jetsons* in surgery — and then experience life in a Third World country on the squalid, understaffed patient care floor, where you shit the bed waiting an hour for a bedpan, and go five days without a bath or linen change because there's one orderly for twenty or thirty patients. They hire committees of high-salaried consultants to write mission statements (and vision statements and core values) about "extraordinary patient care" and "going above and beyond," while gutting the patient care staff. If a hospital could provide "extraordinary patient care" by writing about it in mission statements, without actually spending any money on patient care staff, the place where I work would be the best hospital in the history of the universe.

From the very beginning, it should have been run as a *genuine* community hospital, responsible to *the real community*. It should have been organized as a stakeholder cooperative, with the board of directors made up of representatives of the medical and nursing (and technical, housekeeping, maintenance, dietary, etc.) staff, and of the patient-members.

It should have pursued cost-cutting primarily by reducing overhead from management salaries and bureaucracy, which have at least as much of an effect on unit costs as the wages of production workers (although the MBA schools have to kill anyone who figures that out).

And it should have pursued a business model of offering the kinds of basic medical care that were needed by most people, efficiently and affordably, with a high quality of personal service. It should have branded itself as the hospital where the vast majority of people could go for most medical problems, where you could get your call light answered in a timely fashion and get a bath every day, without the high rates of MRSA, falls, and med errors that result from understaffing. As the slogan on the Heinz ketchup bottle says, they should have done an ordinary thing extraordinarily well.

When community nonprofits are threatened, communities need to stage a hostile takeover and bring those "public" hospitals under the control of *the real public*.

In contrast, here's my vision of one possible alternative healthcare system, as it might exist in a genuinely free market. The lowest tier of service is a cooperative clinic at the neighborhood level, perhaps organized on a subscription basis by a fraternal order or mutual society, on the old lodge practice model. It might be staffed mainly with nurse-practitioners or the sort of "barefoot doctors" mentioned above. They could treat most traumas and ordinary infectious diseases themselves, with several neighborhood clinics together having an MD on retainer for more serious referrals. They could rely entirely on generic drugs (which is all there'd ultimately be in a free market, anyway), at least when they were virtually as good as the patented "me too" stuff; possibly with the option to buy more expensive, non-covered stuff with your own money. This would be a major

reduction in cost for members of the cooperative, who wouldn't have to pay the cost of an expensive office visit to an MD for such service. Their service model might also look more like something designed by, say, Dr. Andrew Weil, with much greater emphasis on preventive medicine, nutrition, etc. One of the terms of membership in the lower tier plan, at standard rates, might be signing a waiver for most expensive, legally-driven CYA testing; as a result, the focus would be on Kling's "empirical," rather than "premium" treatment. For members of such a cooperative, the monthly subscription fee in real dollars might be as low as twenty or thirty dollars. No doubt many upper middle class people might prefer a healthcare plan with more frills, catastrophic care, etc. But for the 40 million or so who are presently uninsured, it'd be a pretty damned good deal.

The next tier would be an intermediate insurance policy. If the G.P. or nurse practitioner recommended a test or treatment that was beyond his competency, or the resources of the facility, the second tier of insurance would kick in. For example, the woman with the inflamed eye in the example above might be advised to get an MRI just in case, even if the doctor was 95% sure it would respond to antibiotics and steroids. But the insurance would have a rather high deductible--say twenty percent--so an MRI would require significant out of pocket expense. As a result, such premium medicine would be available, but rather than being viewed as an automatic part of ordinary treatment, for which the patient's insurance bill could be padded, it would be an out of the ordinary procedure, to be undergone only after serious consideration by the patient himself as to whether the out of pocket expense would be justified. Under such circumstances, a lot more patients would be likely to stick with the antibiotics and steroids, and skip the MRI. The cost of the intermediate tier of insurance would, as a result, be far lower than the present portion of insurance premiums that cover the inflated cost of premium care.

The third tier would provide coverage only against catastrophic illnesses.

And in a society where the mutuals and the associated community (the heir of the old local government, minus its invasive powers) replace the centralized state and the corporation as the expected means for organizing benefits, the provision of such health insurance plans would likely be a standard benefit of membership in a guild or a community association.