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The Belden Center for Private Enterprise Education  
Harding University School of Business  
Searcy, Arkansas

# The Entrepreneur

This issue courtesy of Eugene Smith, President, G. T. Press, Dallas, Texas

## The Pure Theory of the Family in Capitalistic and Socialistic Economic Systems

by

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Presented to

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### 1990 AMERICAN INCENTIVE SYSTEM CALENDAR-- A Daily Chronicle of Enterprise

In a joint venture with Louver Manufacturing Company (Lomanco) of Jacksonville, Arkansas, the Harding Students in Free Enterprise Economics Team presents the 1990 "AMERICAN INCENTIVE SYSTEM CALENDAR--A Daily Chronicle of Enterprise."

The 1990 "AMERICAN INCENTIVE SYSTEM CALENDAR" offers 365 brief reminders of great enterprising events and relevant comments on the idea of freedom applied to the marketplace. It should hang on the walls of offices, factories and school rooms all over the country. A limited amount of copies are available for \$2.00 to cover printing, postage and handling costs.

### STAYING ON TOP IS HARDER THAN GETTING ON TOP

The Harding University Economics team will attempt to win its seventh first place trophy at the national Students in Free Enterprise Competition next summer. The university economics teams have won first place six times at the nationals which were started in 1978. Harding teams, the winningest in the country to date, were national runners-up in 1978, 1983, 1986, 1988, and 1989.

The 1990 team is composed of Drue DeMatteis, Co-Chairperson from Richmond, Virginia; Karen Norwood, Co-Chairperson from Searcy, Arkansas; Jim Hull from Columbus, Ohio; Jason Pace from Searcy, Arkansas; Susan Isom from Searcy, Arkansas; Lee Mackey from Searcy, Arkansas; and their sponsor, Dr. Don Diffine, Professor of Economics and Director of the student-staffed Belden Center for Private Enterprise Education.

Ronald Reagan had a favorite joke he liked to tell on economists: "An economist is the only professional who sees something working in practice and then questions in theory whether it can work at all."<sup>1</sup>

Economists are more often known for using arcane language and unintelligible mathematics than for clear reasoning and simple solutions to current problems. Economists also are usually uncomfortable when dealing with subjects such as the one we are dealing with — the family. In fact, the only clear observation one can make in reviewing the economic literature about the family is that there is so little of it. The family is either assumed not to exist, or the subject is simply ignored. This oversight should be the collective disgrace of my chosen field of professional study, and I am here to make a small attempt to rectify this glaring oversight.

### ECONOMIC SCIENCE

I hope that you will permit me to lay some groundwork before I get to the heart of my analysis. I am assuming that I am talking primarily to non-economists, and I must first review some of the principles that form the heart of economic science. After this introduction, I will try to make some applications and observations as to how the family must be viewed as part of the economic system.

The basic problem that justifies the study of economics is the concept of scarcity. Economics attempts to analyze the fallout that results from the fact that the Earth is populated by people who have more and more wants, but are limited in the resources available to satisfy those growing wants.

Therefore, there is a basic conflict occurring between the limited resources available and the unlimited wants of individuals. Economists are simply trying to understand how to cope with this basic reality.

Economists are often dismal since they can never really solve the basic problem of economics. They can only hope to find better ways of coping with scarcity. The reality of scarcity helps us to understand why no country or nation has ever eliminated poverty. To put the argument in a biblical perspective, ever since the fall of Adam and Eve, man must work by the sweat of his brow to earn his daily bread. Bread is not free; it is costly, and therefore some do not eat since they cannot pay the cost (or no one will pay it for them). Even Jesus said the poor will always be with us.

Because scarcity exists and because scarcity will always exist, there are no economic solutions; there are only trade-offs. If one chooses to buy more bread, the trade-off is that there is less money for milk. If one chooses to work all day, the trade-off is that there is no time to play with the kids. Economics is called the dismal science for it continually reminds us that, because of scarcity, there are no solutions — only trade-offs.

One of the largest trade-offs a country can make is the choice of an economic system. An economic system can be defined as the framework within which choices and trade-offs are made with respect to the use of the limited resources available to a society. In other words, an economic system helps decide who gets what. Basically, there are two types of economic systems that can be chosen by the leaders of a country: capitalism and socialism.

At this point there is no reason to prefer one system over the other. They are both merely ways of coping with scarcity. They both are attempts to provide a framework within which people can live, move and have their very being. The purpose of this paper is to describe these two systems and explicitly describe the effects that each will have on the family.

## CAPITALISM AND SOCIALISM

It should be noted here that no country exists which is 100 percent capitalistic in its economic system. Neither can one find a country which is 100 percent socialistic. Certain countries (the United States, Japan, Great Britain) tend toward the capitalistic economic system. Other countries (Soviet Union, Cuba, Poland) tend toward the socialistic economic system. Other countries fall in the middle of the continuum. But, while no country is perfectly capitalistic or socialistic, it is useful to study the polar extremes; for by studying extremes, one hopes to find which system tends to support the family and which system tends to destroy the family.

There are many things which differentiate the two economic systems. To catalogue them all would be challenging (and

perhaps futile), but for our current purposes, I will limit myself to three rather obvious and important differences: the ownership of property, the assumption of responsibility and the role of government.

The difference between capitalism and socialism, perhaps, is the sharpest on the issue of ownership of property. Under a capitalistic framework, property is owned by private individuals. Under a socialistic framework, property is owned communally.

The term “property” as used in the above paragraph should be interpreted very broadly. Property includes not only land, but housing, machinery, equipment, factories, tools, clothing, food, and most importantly, labor. Under a pure, 100 percent grade A capitalistic system, there are no parks (communal ownership of land) or government-owned enterprises (the Post Office). All of these such things are owned privately. Furthermore, it is important to note that private ownership is taken very seriously. The owner may use the property as he sees fit, limited only by his imagination and the caveat that he must not harm another person or another person’s property.

In socialistic societies, property is owned communally or all things are owned “in common.” In other words, in a nation of 250 million people, a factory is not owned by a single person, but each person owns 1/250 millionth of the factory. Of course, this is the theory of socialism. In reality, the government manages all resources on behalf of the people.

In addition to the issue of ownership of property, capitalism and socialism differ on the issue of responsibility. The question is: Who is responsible for the care, feeding and general well-being of each member of society? Under capitalism, the answer is each individual is responsible for his own well-being. Government or “society” has no responsibility to care for the individual. That responsibility is his and his alone. If an individual is hungry, other individuals may help the hungry person out of a sense of pity or duty or religious conviction, but society as a whole does not bear any responsibility.

Under socialism, responsibility for the individual rests with society as a whole (or more specifically, government). Society has the duty to care for the hungry and homeless. Society must provide food, clothing and shelter to everyone since society has assumed that responsibility.

You might realize that the two issues of ownership and responsibility are mutually reinforcing. If individuals own property, then they bear the responsibility for caring for themselves. This is one basic thesis of capitalism. Conversely, if individuals do not own property (except in common), then it is not logical to ask them to care for themselves. They simply do not own the means to do so. Even their labor is owned

in common, so they must rely on the graces of society for their needs to be fulfilled.

As a final point in our brief discussion of the differences between capitalism and socialism, we must turn to the role of government. As the sole legitimate agent of organized force in society, government must play a role in every system. Differences are highlighted when the functions of government are addressed from a theoretical standpoint.

Under capitalism, the role of government is to protect and enforce property rights, but little else. Government is to protect your property from external invasion by foreign armies (national defense), and it is to protect your property from internal harm by bandits and brigands (police protection and courts). Otherwise, the government leaves economic activity up to the spontaneous order created by individuals through their voluntary exchange of private property. Government is charged with frugality and the job of administration of justice, but not the administration of resources.

Under socialism, government is charged not only with the administration of justice but also the administration of resources. (It should be noted here that we are bypassing the question of whether or not government represents society. In some cases they do, but in many cases they do not. Here we are essentially making the rather heroic assumption that governments in socialistic society represent the wishes of the people in common). The role of government is to carry out the dictum attributed to Karl Marx: "From each according to his ability; to each according to his needs." In other words, each individual contributes to society (government) as he has the ability to work and produce. Society (government) then distributes the fruits of labor as each individual needs for the comforts of life. This is only the logical result of assuming all forms of property (including labor) are owned in common and society, not the individual, is responsible for individual well-being.

## THE FAMILY AND CAPITALISM

Given the above as background, we are now ready to turn to the real purpose for our discussion. How does all this affect the family? Let me state my thesis boldly and then, hopefully, I can support it. My thesis is this: Capitalism is the only economic system that has an explicit role for the family. It is the only system that can nurture and promote the family. Negatively, let me say my thesis this way: Socialism has no role for the family and will ultimately destroy the family.

While all of the analysis of capitalism has focused on the individual (individual ownership of property and individual responsibility), there should be a realization that this is an incomplete analysis. Specifically, who takes care of those individuals who cannot take care of themselves? Who takes care

of madmen and children? Well, capitalist theory must do one of two things. It must either allow for some governmental responsibility to these individuals or it will assign such responsibility to the family. Pure capitalistic theory assigns the responsibility for madmen and children to the families of the madmen and children. Milton Friedman mentions in one of his books, "The ultimate operative unit in our society is the family, not the individual."<sup>3</sup>

Perhaps a few examples or cases are in order. In the history of the United States there are periods of time where capitalist theory was implemented to a degree approaching purity. During the administrations of the first few presidents, the country was sparsely populated over a large amount of land. Few government controls were in place and taxes were almost nonexistent. Thomas Jefferson was able to write, "It may be the pleasure and pride of an American to ask what farmer, what mechanic, what laborer, ever sees a tax gatherer of the United States?"<sup>4</sup> Therefore, government was limited to protecting property but had no revenue to take care of the less fortunate of society.

During this same period of time, there was a rise in family values and virtues. In his book on the Civil War entitled **Battle Cry of Freedom**, the historian James McPherson noted that, in the period just prior to the Civil War, there was an emergence of the family as a strong and stable centerpiece of American society. Children became the center of the home, and women were no longer required to work just to keep food on the table. Parents lavished love on the children and education became prominent.<sup>5</sup> Many European scholars commented on the healthy nature of American families, perhaps a reaction to some of the hideous childcare practices of Europe recently documented by John Boswell in his book **The Kindness of Strangers**.<sup>6</sup> The point of this is that since early American governments refused to accept any responsibility for the less fortunate, fathers and families had to do so. The serendipity of capitalism is that it provides the prosperity that allows families to care for their own.

Another example closer to the present day is Social Security. The first Social Security was received by Ida Fuller of Ludlow, Vermont. Since that time, the system has been expanded so that almost every American, age 65 and over, receives a check from the government. This program is politically sacrosanct, but the question asked here is: how does this effect the family? Are family bonds weakened or strengthened because of Social Security? In theory and practice, there is little doubt that the family is weakened by Social Security, especially between generations of the family.

Before Social Security was enacted, children set aside part of their income for the care of parents. Often, one family would have grandparents living in the same house. The children assumed the responsibility for the care of their aged parents ... a role that now is often abdicated by the children since "Social Security will take care of them."

Whether or not it is beneficial to have aged parents living with children is a social and moral question. As an economist, I am only pointing out that a socialistic type program has broken, or at the least weakened, the responsibility of the family for some of its members.

## THE FAMILY AND SOCIALISM

While the pure theory of capitalism assigns a certain role to families, when the same questions are asked of socialism, the answers are much different. Who takes care of those who can't take care of themselves under socialist society? The answer has already been given. Society (government) takes care of everyone's needs. What role is there for the family? In theory none, nothing, nada.

The issue of socialism and the family is brought into sharper focus when one analyzes one role of responsibility which almost everyone agrees upon: that parents are responsible for their children. Most societies assume that parents agree to care for and nurture their children, although recent scholarship has pointed to some rather gruesome practices in ancient times.<sup>7</sup> In terms of the current analysis, children are the private property of their parents and in capitalistic society, parents are responsible for the care of their children with little, if any, government interference.

In socialism, **all** property is owned in common, and this includes children. In the pure theory of socialism, parents do not assume responsibility for children since society is responsible for taking care of **all** needs. While this analysis and these examples may seem to present a fairly extreme conclusion, it is one that is reinforced by writers and thinkers on socialist theory down through the ages. The most blatant and uncompromising statement of the results of pure socialist theory was made by Friedrich Engels, the mentor and collaborator of Karl Marx:

“With the transfer of the means of production into common ownership, the single family ceases to be the economic unit of society. Private housekeeping is transformed into a social industry. The care and education of the children becomes a public affair; society looks after all children alike, whether they are legitimate or not...”<sup>8</sup>

The family is simply irrelevant to the proper functioning of a pure socialistic society. It is essential to the proper functioning of a pure capitalistic society.

I have entitled my paper **The Pure Theory of the Family in Capitalistic and Socialistic Economic Systems**. The emphasis is on “Pure,” for no society is all capitalistic or socialistic. But by studying the pure theory, we can view everyday policy alternatives in a different light. If a policy

moves us toward capitalism, then it is a pro-family policy. If it moves us in the other direction, then it is anti-family.

Let me explain by two additional examples, one local and one national. In the 1989 Arkansas legislative session there was a move to pass a law allowing the establishment of school-based health clinics. The clinics would be able to distribute medicines and contraceptives to students without the knowledge of the parents. According to analysis of this paper, this is clearly an anti-family proposal since it violates all three principles of private property, responsibility and limited government. Private property would be violated since the drugs and contraceptives would be purchased with communal property (tax money). Responsibility would be violated since the decision would be made outside the family, not within it. Finally, the concept of limited government would be violated since government would be administering resources (drugs and contraceptives) instead of limiting itself to administering justice.

A second example is the national welfare system. Welfare, food stamps and aid to families with dependent children (AFDC), are essentially socialist-type programs. They present socialist positions on the three principles of property, responsibility and government intervention. And the question again is: how do they effect the family? The evidence of the past 20 years suggests that they have been detrimental to the family. You know the statistics. In 1960, \$69.3 billion was spent on welfare programs. In 1980, \$302.8 billion was spent: a 337 percent increase. During the same time period, children born out of wedlock increased from 5.3 percent to 18.4 percent. For teenaged mothers who are white, the percentage increased from 7.2 percent to 33 percent. For non-white teenagers, the percentage increased from 42.2 percent to 82.1 percent.<sup>9</sup> In other words, for non-white, teenage pregnancies, 8 out of 10 are illegitimate ... not a good omen for families.

The future of the family is too important to be left to psychologists and preachers. Economics had a great deal to do with family health, and I hope this small paper will contribute to the debate.

## ENDNOTES

<sup>1</sup> “The Magic of Reaganomics”, *Newsweek*, December 26, 1988, pp. 42-44.

<sup>2</sup> John 12:8

<sup>3</sup> Milton Friedman, *Capitalism and Freedom*, University of Chicago Press (1962), p. 33.

<sup>4</sup> Noble Cunningham, *In Pursuit of Reason: The life of Thomas Jefferson*, (New York: Ballantine Books, 1987) p. 267.

<sup>5</sup> James McPherson, *Battle Cry of Freedom* (New York: Oxford University Press, 1988) p. 33-35.

<sup>6</sup> John Boswell, *The Kindness of Strangers* (New York: Pantheon Books, 1988).

<sup>7</sup> *Ibid.*

<sup>8</sup> Friedrich Engels, *The Origin of the Family, Private Property and the State*, (New York: International Publishers, 1942) p. 67.

<sup>9</sup> Greg Christainsen and Walter Williams, “Welfare, Family Cohesiveness, and Out-of-Wedlock Births,” in *The American Family and the State*, (San Francisco: Pacific Research Institute, 1986).

# Immigration Policy and the Welfare State

by  
Jeremy Lewis

*Editor's Note: Jeremy Lewis is a 1989 accounting graduate from Harding University. Originally from Belize, Central America, and attending Harding as a Walton Scholar, he was a national finalist in the seventh annual Milton Friedman Essay Contest for college students, writing on the above-titled theme.*

Immigration policy has always been and will probably continue to be a passionate issue for nations faced with large influxes of immigrants. History is full of accounts of governments that have expelled large numbers of immigrants under political pressure from nationals, only to turn around and invite them in again at a later date.

Those who would see immigration levels restricted see themselves as threatened and displaced by “outsiders” who compete for the few available jobs. In the estimation of nationals, immigrants increase unemployment, thereby placing an added burden on tax payers and the welfare system. At the same time, immigrants are perceived as paying few taxes themselves (because the stigma attached to illegal immigrants portrays them as disproportionately represented in the lower income levels with little upward mobility). These arguments are of an economic nature, yet perhaps they are fueled by the greater fear that an influx of new races and cultures will upset the existing balances. Is it possible then that the economic objection raised against immigration is little more than refined bigotry? The question gains in legitimacy when it can be shown that few, if any, of the complaints about immigrants are borne out by the facts.

First, it is not true that immigrants, legal or illegal, tend to take away jobs and create further unemployment. In fact, quite the opposite seems to happen for several reasons. In many cases, new immigrants provide a service and stimulate the economy by taking jobs that natives shun because they pay below minimum wage, or are lacking in prestige, or involve long hours and a high degree of difficulty. This is especially true of illegal immigrants who are in no position to agitate via the political system for higher wages, shorter hours or better working conditions. In addition, many governments in the past have been moved to pass laws repressive to immigrants, barring them from participation in whole segments of the economy, so that natives could secure the more prestigious and potentially lucrative positions. In the face of such repression, when in no way could it be said that jobs were being taken away from natives, immigrants have prospered to the extent that by the second generation their children were better off or at least on par with native children. The histories of the Jews during the diaspora, (the mass dispersion of the Jews throughout the world) and the overseas Chinese in the last 600 years, are prime examples of this.

In instances where the Chinese were actually expelled, as in “Manila in the seventeenth century, prices went up, not down, and there were shortages of basic necessities, even with rising prices,” evidence suggests not only that immigrants were providing valuable service in Manila’s economy, but that they were doing so in areas where the natives seemed to lack both the skill and the inclination to compete.

European Jews were frequently restricted in their economic activities. “In the early centuries A.D., many Jews were farmers and landowners, but in most countries they were forced out of these occupations by various restrictions and prohibitions. Jews found — or created — such economic roles as they could. Their skills, work capacity and frugality made Jews valuable additions to many economies.” Of significance is the fact that they prospered, despite the lack of a welfare system to nurture them.

The two ethnic groups pinpointed here serve to underscore the argument that immigrants do not take food from the mouths of natives while adding to unemployment statistics. On the contrary, whether spurred on by political repression or because of their own unique perspective, they tend to move into previously unclaimed areas of an economy and create new jobs in new or underdeveloped industries.

Immigrants also tend to be varied in the skills they bring, coming as they do from many foreign nations, cultures and even regions within their country of origin. Once settled, they provide an immediate boost to the economy because of the businesses they open, as well as their spending.<sup>9</sup> In addition, many of the services provided by immigrants serve to enrich the cultural base of their new homes. Chinese and Italian restaurants come to mind, as well as the early dominance of the Jewish community in the motion picture industry of the U.S.

There are many intangibles that allow immigrants to become such a productive part of the nations they settle in. For one, they tend to possess unusually high levels of skill, education, self-reliance and innovative flair. In addition, most immigrants tend to be just entering the prime of their work life. The rigors of immigration have already weeded out the older people who are already established economically in their home countries. As a result, immigrant populations are a constant source of youth for the labor force in their new homes, and are generally flexible regarding job type and location. Their continued presence enhances an economy’s ability to adjust to changing conditions.

The fact that immigrants increase productivity wherever they go is probably the biggest mark in their favor. They contribute to a larger, more diverse brain pool for innovative thought, and they boost the labor force and consumer populations (population growth has always had a positive effect on economic growth). Immigrants also contribute to the increase in the transmittal of ideas across national borders and cultures,

a fact as important today as it was in the days of the enlightenment.

There is much to be said for the claim that certain ethnic groups exhibit traits that allow them to excel in competition with others. These are learned traits and, as such, can disappear in succeeding generations or be acquired by other groups. This is not an endorsement for the inherent supremacy of any one race over another. However, at a given point in time, an ethnic group may have acquired skills, or an attitude of mind (through its moral cultural system) that allows them to do well wherever they go. Surely it is to a nation's benefit to have such people assimilated into its culture and active in its economy.

Do immigrants create an additional burden on a welfare state? The evidence we have seen is overwhelmingly against such a conclusion. Typically, immigrants arrive when they are at the height of their physical and mental abilities, having left behind the elderly who would be a burden on the system.<sup>9</sup> In addition, by the second generation, they are advanced sufficiently that the children are able to support their retired parents. As far as paying taxes, "based on income, immigrants in the U.S. pay more than the average native family." Do immigrants create further unemployment in a welfare state? On the contrary, "illegal aliens are working because their services are useful and economical," not because they are stealing jobs from Americans. "Employment is a cost phenomenon," which results from one's productivity being greater than one's employment cost. "Eight million Americans are unemployed because their employment costs ... exceed their usefulness. Expelling immigrants will not make the eight million any more employable."

The topic of discussion here is that of Immigration Policy and the Welfare State, but what of the welfare state? We have already seen that immigration in and of itself inflicts little evil on a nation. In fact, even illegal immigration, aside from the passion it generates in the political arena, has a beneficial

effect on an economy. As evidenced many times in society, however (and again the examples of the diaspora Jews and the overseas Chinese are cited), political expediency takes precedence over economic considerations. Many times repression and expulsion have been the lot of immigrants in spite of the damage done to an economy as a result.

A welfare state is damaging to intelligent immigration policy on two levels: the measures it enacts for expediency and the mentality it engenders.

Examples of what I consider measures enacted for expediency include such things as a minimum wage, unemployment compensation, food stamps, multiple benefits, and labor and commercial protectionism. Faced with the need to stay in power by keeping voters happy, heads of state may well institute these kinds of policies regardless of possible future consequences. Once implemented, they take on a life of their own and any attempt to dismantle them becomes political suicide because voters come to view them as inherent rights. Indeed, it becomes expedient to offer even more benefits to keep everyone happy.

This is precisely the mentality that a welfare state generates. People come to view government benefits as their basic right, and a cycle of increasing benefits and increasing dependency is developed. Unemployment increases because welfare checks are a disincentive to labor, sparking another round of increased welfare spending and a furthering of the disincentive to seek employment.

These measures and this mentality are injurious to intelligent immigration policy because first, there is a tendency for welfare states to become protectionist and to close their borders. Then, they are also damaging in the long run because immigrants may succumb to the idea that the state owes them a living, becoming less productive themselves while supporting proposals to stem the flow of future immigrants.



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