

# THE FREEMAN

IDEAS ON LIBERTY

## Published by

The Foundation for Economic Education  
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The Foundation for Economic Education (FEE) is a non-political, non-profit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

*The Freeman* is published monthly, except for combined January-February and July-August issues. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail [bhoffman@fee.org](mailto:bhoffman@fee.org).

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## Perspective

# Bureaucracy Can't Be Run Like a Business

John Tierney is an excellent columnist, by far the best on the *New York Times* op-ed page. He showed it last September when he contrasted Wal-Mart's superlative emergency preparedness with the government's horrible performance during Hurricane Katrina. As he wrote, Wal-Mart is "one of the few institutions to improve its image here after Katrina sent a 15-foot wave across the north shore of Lake Pontchartrain. If you mention the Red Cross or FEMA to people in Slidell [Louisiana], you hear rants about help that didn't arrive and phone lines that are always busy. If you mention state or national politicians, you hear obscenities. But if you visit the Wal-Mart and the Sam's Club stores here, you hear shoppers who have been without power for weeks marveling that there are still generators in stock (and priced at \$304.04). You hear about the trucks that rolled in right after the hurricane and the stuff the stores gave away: chain saws and boots for rescue workers, sheets and clothes for shelters, water and ice for the public."

Tierney says that among Louisiana officials, "there's even been talk of letting Wal-Mart take over FEMA's job. The company already has its own emergency operations center, where dozens of people began preparing for the hurricane the week before it hit by moving supplies and trucks into position. . . . I'm afraid the Wal-Mart Emergency Management Agency will be a tough sell on Capitol Hill. But I'd vote for WEMA." At the least, he suggested, Wal-Mart chief Lee Scott should run FEMA.

But Tierney misses an important point. Wal-Mart did so well precisely because it is *not* a government agency or contractor. There is no reason to believe that Scott could run FEMA better than a political appointee or career bureaucrat. This is not meant as an insult. Rather, it's a comment about bureaucracy. There's an old conservative idea that government can be run like a business, but years ago Ludwig von Mises, in his 1944 classic, *Bureaucracy*, showed this to be a misconception.

In that little book Mises contrasts the essential nature of a government bureau with that of a for-profit enterprise. As he points out, these forms of organization could not be less alike. An enterprise can prosper only if it

pleases consumers, who are free at any time to take their money and search for satisfaction elsewhere. Thus business owners have an infallible guide to how well they are doing: the profit-and-loss sheet based on market prices for both inputs and outputs.

This combination of consumer sovereignty, free competition, and the price system—which all flow from the same thing: individual liberty—enables enterprises to perform efficiently. That is why market-based societies are far more prosperous than socialist societies and why freer economies do better than more-regulated economies.

A bureaucracy, in contrast, is missing the feedback so essential to capitalist success. It gets its revenue not through the free choices of consumers, but rather from coerced taxpayers who must pay for “services” whether they use them or not, or like them or not. Competition is barred (or hampered), and the “services” are not priced on the market. As a result, a bureaucracy has no need to please consumers and faces no profit-and-loss test. It cannot calculate as a business can. The pro-consumer rule of business, “Make a profit,” cannot apply to a bureaucracy, so it instead is required to follow pages of procedural regulations that bear no relation to “customer” satisfaction.

A key implication of the difference between bureaucracies and enterprises is that the former’s problems are not merely matters of personnel. Thus what ails a bureaucracy cannot be cured by turning it over to a businessman. Mises writes, “It is vain to advocate a bureaucratic reform through the appointment of businessmen as heads of various departments. The quality of being an entrepreneur is not inherent in the personality of the entrepreneur; it is inherent in the position which he occupies in the framework of market society.”

In other words, the businessman won’t change the bureaucracy; the bureaucracy will change the businessman. If we want agencies responsible for emergency services to perform as well as Wal-Mart does, they must be where Wal-Mart is: in the marketplace.

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Hurricane Katrina illustrated not only the damage that nature can wreak, but also the damage that government can wreak. Most people would find it counterintuitive that we’d be better off with “price gouging” and without the Federal Emergency Management Agency,

but as Dwight Lee shows, in this case the counterintuitive is correct.

One of the few constructive parts of President Bush’s unprecedented pledge to rebuild New Orleans and the rest of the wracked Gulf Coast was his short-lived suspension of the Davis-Bacon Act, a legal wage-fixing scheme for federal construction. George Leef explains why the President should have stuck to his guns.

Eighty years ago this month a man was born who would grow up to be a great educator for the freedom philosophy in his country, Guatemala. Donald Boudreaux tells the inspirational story of former FEE trustee Manuel Ayau, who’s still going strong.

Stripped of economic jargon, import quotas and tariffs are nothing but forcible interference with individuals’ peaceful exchange across national borders. What, asks Manuel Ayau, could be more presumptuous?

After the terrorist attacks of 9/11 the federal government stepped in to bail out the struggling airlines. How did it do? Paul Cleveland and Michael Tucker look at the record.

A Chinese government-owned oil company tried to buy Unocal, but a coalition in Congress made sure the acquisition would not occur. Was that a good thing? See what James Dorn has to say.

With the Labour Party firmly in control and Gordon Brown set to succeed Tony Blair as head of the party, what’s in store for Great Britain? Norman Barry reports from the scene.

Here’s what our columnists have come up with: Richard Ebeling makes the case for monetary freedom. Lawrence Reed optimistically describes liberal activities in Africa. Thomas Szasz explores the meaning of mad genius. Burton Folsom relates tales from the annals of unpredictable entrepreneurship. Walter Williams continues his Economics for the Citizen series. And Robert Murphy, irked by the claim that Hurricane Katrina proved that government is too small, booms, “It Just Ain’t So!”

Books undergoing examination by our reviewers deal with the persistence of poverty in Latin America, energy, economic rights, and global warming.

This being our December issue, we wind up, as usual, with the year’s index.

—Sheldon Richman  
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