Institutions of Innovation and Prosperity

Ray Ball

THE CENTRE FOR INDEPENDENT STUDIES

The John Bonython Lectures

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Opening Remarks

Alan McGregor
Chairman, CIS Board of Directors

Ladies and Gentlemen, good evening and welcome. It is a great pleasure to welcome everybody, and to thank those who have come with tables and support for the CIS.

The John Bonython Lecture was established in 1984 and named after the late John Bonython of Adelaide, who was the first Chairman of the Centre's Board of Trustees, as it then was. I'm delighted to welcome Mrs Shirley Bonython and their son Hannibal, who have come tonight. The purpose of the John Bonython Lecture is to examine the relationship between individuals and the economic, social and political elements that make up a free society.

Over the years this lecture has been presented by an extraordinary range of very high profile speakers including Nobel Laureate James Buchanan, Czech Prime Minister Václav Klaus, Peruvian novelist and sometime presidential candidate Mario Vargas Llosa, and last time it was held in Melbourne two years ago, Rupert Murdoch. A feature of this series is that we always bring someone from overseas, but some of the people we bring are expatriate Australians returning, and I am delighted to welcome Ray Ball, along with his wife Jan, as one of the distinguished expatriates to return to Australia.

In due course Bob Officer will introduce him and there will be lots of time for stimulating discussion after the lecture. So at this stage please enjoy the dinner and I hope everybody has a great time.

Introduction

Professor R.R. Officer
AMP Professor of Finance
Graduate School of Management
University of Melbourne

It gives me great pleasure to introduce Ray Ball to you this evening and say a few words about him. While I will cover parts of the conventional curriculum vitae it will be very much from my personal perspective as I have known Ray for nearly 30 years, and his wife Jan almost as long. Their wedding in Lincoln Park alongside Lake Michigan was a great affair, typical 60s – Beatles music, beards, and beads.

Ray and I have been colleagues at the University of Chicago and the University of Queensland. We have worked closely together on projects and I have been greatly enriched by the association, but perhaps more importantly we have a friendship that extends over that period which I value very highly. As I recall, Ray's family were dairy farmers and as I'm constantly reminded it is good to be off a dairy farm. My wife came off a dairy farm and my family had one, but my wife has said she never wants to return to the country. When I questioned her as to what defined the country she said Glenferrie Rd – we live in St Kilda. To my knowledge Ray started making good decisions early on and not going back to the dairy farm was one of them.

I first met Ray in 1968 at the University of Chicago were he went a year or so earlier after receiving an Honours Degree in Commerce and the University Medal from the University of New South Wales. The other Australians at the University of Chicago Graduate School of Business at that time were Phillip Brown, who was finishing up his PhD, and just about on his way back to Australia, and Ross Watts, a current colleague of Ray's. It was in 1968 that Ray Ball and Phillip Brown published their paper 'An Empirical Evaluation of Accounting Income Numbers' in *The Journal of Accounting Research*, which is the most cited paper in accounting literature in the world. It reflected insights and methodology which at the time were quite unique, and I point out that Ray had only been at the University of Chicago for a little over twelve months before that paper was published.

Chicago then as now was an outstanding academic institution and the Business School was clearly the foremost business school in accounting and finance in the world. Of course the Economics Department was the foremost in that area; in fact the Economics Department of the Business School was ranked in the top half dozen.

As a consequence it attracted many outstanding students. But in my judgement Ray was the most outstanding of the PhD students or candidates in the period I was at Chicago. I believe this was a view held by faculty. I was head of the student body at one stage there and we had over 100 PhD students, so there was quite a bit of competition.

My background was agricultural economics and I had very little exposure to accounting and finance until I went to Chicago. Once I settled into my thesis Ray was an invaluable colleague. We had many arguments and discussions that were really too animated to be called discussions and too productive to be called arguments in the conventional sense of that word. Ray was then and is today one of the most insightful scholars in the areas that encompass accounting, finance and economics. His work, I find, is always worth reading and it often provides that spark of insight that opens up a new way of looking at a problem. For the cognoscente, long before the anomaly literature and capital market became fashionable Ray was talking about the problems and the issues that a decade later would become commonplace.

After Chicago we both went to the University of Queensland, where once again from my perspective it was a very productive and enjoyable relationship. We both left Queensland about the same time in the mid-seventies. Ray went to a Foundation Chair of Management of the Australian Graduate School of Management and I returned to Melbourne to a chair at Monash University. For a decade, although we were geographically apart, there was rarely more than a week or two that there wasn't some form of contact. I know a lot of people thought I was a member of the staff at the AGSM as I seemed to spend so much time there, something that I'd have to confess does not occur that much today.

The AGSM was set on a very strong scholastic path under its initial director Phillip Brown and he was very strongly supported by his colleague of Chicago days, Ray Ball. Ray had a profound influence on that school and the interface between academia and business in Sydney. Ray's influence out here in Australia is still strong and he comes back regularly as a consultant. We are currently on opposite sides in an arbitration relating to Bass Strait gas, but we are not allowed to talk about that.

Ray and Jan left Sydney in 1986 to return to the US where he rejoined his colleague and joint author of Chicago days, Ross Watts, at the University of Rochester. Rochester is probably the most underrated business school in the US. It has an outstanding faculty in accounting and finance, not large in number, but extraordinarily good researchers and teachers. We have had an Australian connection there extending over a couple of decades and I believe this country and its scholars have greatly benefited.

Ray continues his academic work. A book of his readings on financial statement analysis is a required text for a new course I am running this term. His influence continues to be widely felt and he spends considerable time in Europe and elsewhere. He is currently Visiting Professor at the London Business School. Jan and Ray also have an apartment on the Mediterranean, which reflects his European connection.

His influence particularly amongst academic accountants is very strong throughout the world, but not so well recognised is his very strong economics and social science base, which enables him to traverse topics outside the normal domain we think of for accountants. In fact I never think of Ray as an accountant and he probably doesn't think of himself as one. We are fortunate tonight to have him to address us on just such a topic, the topic 'Institutions of Innovation and Prosperity'. The issues arising from this topic I believe are critical to Australia, particularly in this state and as usual Ray is going to give us an address that will not only reflect his scholastic skills but is also very relevant to current issues that face governments around the world.

Please welcome Ray Ball.

About the Author

Ray Ball was born in Sydney in 1944. His original degree was in Commerce from the University of New South Wales, where he won the University Medal. From UNSW he went on to the University of Chicago, completing an MBA in 1968 and a PhD in Economics in 1972.

In 1972 at age 26 he was made Australia's youngest ever Professor, in Accounting and Business Finance at the University of Queensland. The appointment was made on the strength of his study of sharemarkets, which was seminal work on how markets operate.

In 1976 he was made Foundation Professor in the Australian Graduate School of Management at UNSW. He was a Professor at AGSM until 1986. In this time he established his links with the Centre for Independent Studies, becoming a member of its Academic Advisory Council in 1979, a position he still holds.

In 1986 he became Professor of Accounting at the William E. Simon Graduate School of Business Administration at Rochester University in New York state. The move to the US was prompted by his American wife and the desire for new academic challenges. He is now also a Visiting Professor of Accounting at the London Business School.

He has been highly influential in accounting. In 1986 he won the American Accounting Association's inaugural award for seminal contributions to the accounting literature, with the citation stating that no other paper has been cited as often or played such a role in the development of accounting research during the past thirty years.

Institutions of Innovation and Prosperity

Ray Ball

John Bonython was an entrepreneur, an early, staunch and active supporter of the Centre for Independent Studies and its classical liberal ideals, and an Australian. It is a very special privilege for me to deliver the 1996 Lecture that carries his name, particularly in the presence of members of his family, such distinguished company, so many old friends, and my dear wife.

I want to talk about one of life's central paradoxes: that we, who owe so much to our membership of a civilised society, nevertheless take its most precious institutions – the institutions on which our civilisation is dependent – for granted. I shall refer to institutions in a generic sense: as any supra-individual source of systematic human behaviour. Social institutions therefore encompass morals, traditions, laws, languages, families, schools and universities, churches, not-for-profit organisations, partnerships, corporations, money, banks, constitutions, governments, police and defence forces, government administrative and regulatory bodies, and of course markets.

One theme I shall seek to convey to you is that the prosperity, liberty and general well-being that we currently enjoy are due in no small measure to the complex and unplanned – but nevertheless orderly – evolution, over a very long period, of the social institutions we have inherited. And, conversely, the prosperity of our successors depends on our willingness to allow – or, better still, encourage – continuation in the marvellously human process of experimentation, innovation and evolution of our institutional structure.

A second theme is that most of us are rationally unaware of the extent to which our present and future prosperity are due to the institutions of our society. We have little knowledge of the rationale behind the existence of particular institutions (for example, why have professional partnerships historically dominated in ethical businesses such as medicine, law and auditing, whereas not-for-profit organisations have dominated in charities?). We have little knowledge of the rationale behind particular features of particular institutions (why do public companies, which have come to dominate manufacturing, have limited liability, and why do the many languages of the world exhibit so many similarities?). I shall make the argument – due to F.A. Hayek – that our ignorance of the rationale behind the institutional structure of society is totally understandable, completely expected. This second theme is central to the mission of the Centre for Independent Studies, because our ignorance of the rationale behind institutional structure is the seed of our temptation to plan it. Our future prosperity depends on our ability to avoid the understandable but costly human temptation to interfere with what is an unplannable process.

The third theme tonight is that the nations that historically have given planners a major intervening role in their society have experienced substantially lower standards of wealth, health and liberty. What is worse, they have discovered, after the fact, that they have suppressed and therefore lost the benefit of a prolonged period of institutional evolution, a loss that is very difficult to recover. The process of unwinding the effects of planning certainly involves dismantling the instruments of control, known as deregulation, but in my view it also requires a process of institutional regeneration. The process is neither immediate nor easy nor predictable. It requires prolonged intellectual support, which is why we are here tonight.

I. Liberty, Institutional Innovation and Prosperity

The connection between liberty, institutional innovation and prosperity is not widely understood. This is not intended as a criticism in any sense, for it is to be expected. In a free society the institutional structure that we inherit has evolved over an extended period of time, through unplanned human action, so individual humans understandingly take their most precious institutions for granted. I shall return to this theme later.

For the moment, I wish to reflect initially on the historical evidence and then on the contemporary world, to gain some insight into the contribution of institutional structure to liberty and prosperity.

The Historical Evolution of Western Social Institutions

We are fortunate to have the sweeping historical account of institutional evolution over the last millennium provided by Nathan Rosenberg and L.E. Birdzell, Jr. Their book, entitled with refreshing candour *How the West Grew Rich* (1986), is one of the very few narratives to address the issue. Their account can be summarised as follows.

Prior to the Middle Ages, life was wretched by modern standards. Living standards in Western Europe were comparable with those elsewhere in the world, notably in China and the Islamic countries. The predominantly feudal institutional structure made little or no distinction between political and economic processes. For example, the manorial system vested in the lord of the manor, and the hierarchy below him, all authority over the production and consumption of goods and services (decisions we have come to view as 'economic'), and also all authority over the military, police, justice, public works and other governance tasks (decisions we have come to view as 'political'). The hierarchy was quite rigid, and there was a comparative absence of institutional innovation. Customs and rules predominated. Most people worked by compulsion in the fields, on allotted strips of land, with much of their output accruing to the lords, in a deeply oppressive society. We often romanticise a world of knights and fair ladies who lived in huge castles, but the reality for most people was an impoverished, short, ignorant, illiberal life spent working and living (in extremely primitive conditions) out in the fields.

The breakout occurred in Western Europe. Over a period of approximately two centuries, the West underwent a series of institutional transformations that provided substantially more separation of the political and the economic spheres. Perhaps the single most important institutional innovation was the autonomous city-state, including Venice, Florence and Genoa. The cities evolved a political structure that provided and enforced laws governing property rights, trading and taxation among other things, and an economic structure in which voluntary trading occurred. Trade spurred invention, my favourite example of which was clockmaking. The political ambit of the cities was insufficient to constrain competition among them for merchants, or competition among merchants for business.

By the end of the sixteenth century, feudal organisation had given way to a more market-oriented structure, with money, prices, and autonomous trading. Since that initial separation, comparatively speaking, of the political and economic spheres, the West has engaged in a prolonged, gradual and incremental process of institutional evolution, and at the same time it has experienced a gradual, incremental increase in prosperity, liberty and general well-being. In terms of most such measures of the human condition, it has left China and the Islamic countries way behind.

The broad message in Rosenberg and Birdzell's sweeping account is that we owe our prosperity to being the inheritors of a very long history of institutional innovation: that is, to our membership of a society that has created greater separation between the political and the economic spheres, and consequently has been tolerant of institutional change.

The Contemporary World: Institutions Matter – Not Resources, Education or Technology Per Se

The evidence is abundantly clear that it is institutional structure – not an endowment of 'natural resources,' education or technology per se – that differentiates the wealthy nations from the poor. A cursory glance around the contemporary world reinforces this conclusion.

The former Soviet Union and its Eastern European allies, and countries throughout Africa and South America, have access to enormous quantities of resources, yet their people by and large are poor. In comparison, Switzerland, Japan, Singapore and Hong Kong are resource-poor, yet their people are wealthy. Other things being equal, the possession of 'natural' resources obviously is desirable. But it does not guarantee prosperity.

Nor is it education or technology that makes nations prosperous. The former Soviet Union is a clear case in point. In almost all branches of technology, the Russians have scientists who are at (or near) the cutting-edge of knowledge. They lavished resources on their education system. Yet they are poor. I have heard many people ask: 'How can the Russians know how to put men and women into space, yet not be able to produce a decent standard of living?'

The answer is that social institutions – not natural resources or education or knowledge of technology per se – are what differentiates the poor from the rich nations. And the poor nations typically have suppressed institutional evolution by failing to separate the political and the economic spheres: that is, by rigidifying their institutional structure. The Soviets did not miss out on seventy years of access to technology, or seventy years of education. They missed out on seventy years of institutional evolution.

Despite these lessons from the differences among nations and their histories, my impression, admittedly based on a non-scientific survey, is that school textbooks still describe nations' wealth in terms of their agricultural, mineral and energy bounties. There is no conspiracy here. One of F.A. Hayek's many insights into institutional evolution, which I discuss later, is that rational individuals are unaware of the process and its outcome. But it does point to an ongoing educational problem.

Prosperity, Liberty and General Welfare

Rosenberg and Birdzell survey primarily economic institutions. The role of the family, for example, is ignored in their account. And they focus on societies' wealths. But we should not draw the conclusion, from their historical account, that at the end of the Middle Ages the West embarked on a binge of empty materialism. As Rosenberg and Birdzell themselves observe, wealth, liberty and welfare are by no means independent. In their words: 'the rare examples we have of rich societies differ from the poor not only in having a higher per capita gross national product, but in creating an entirely different life for their members.' Wealth tends to bring an absence of plague, pestilence, famine, infant mortality, ignorance, superstition, and oppression.

Recent statistics illustrate this point well. The United Nations Development Programme (not an organisation that I feel comfortable citing as an authority!) rates countries on the basis of a 'human development index' they have devised and calculated. The index weights a variety of factors that include gross domestic product per capita (a measure of the income, or wealth, of the average person), life expectancy at birth (a measure of health), and adult literacy rates and per capita participation at various levels of education (measures of both liberty and wealth). The astonishing result is that countries' rankings on the index are extremely highly correlated with one single factor, per capita income. This is not due simply to income being part of the index, which was designed to give less weight to income as income rises. Rather, the high correlation between income and the overall 'human development index' is due to the fact that the wealthier countries typically are also the healthier and more liberal countries.

Consider the following figures for estimated average life expectancy at birth. Switzerland is a wealthy country and, like most countries, its per capita wealth has increased over time. The Swiss life expectancy in 1950 was 68, and in 1992 it was 77.5. The post-war increase in Japanese wealth is well-known; and its life expectancy rose from 57 in 1950 to 79 in 1992. Tanzania's life expectancy rose over the same period from a low 38 to a comparatively low 51.5. The more-wealthy societies typically are also the more healthy.

The message is that more is at stake than material wealth. We owe more than just our prosperity to our being the inheritors of a very long history of institutional innovation: we owe most of what we hold to be the virtues of a civilised society. Societies that tolerate institutional evolution tend to be wealthy, but they also tend to be healthy and free.

II. The Classical Liberal View of Institutions

This simple point – that we owe much of what we hold dear to our inheritance of a tradition of institutional innovation – is so fundamental and so poorly understood, in my view, that I would like to expand upon the reasons for our ignorance of it. I will try to convey some sense of the classical liberal view of institutions.

Human Action Distinguished from Human Design

Most of us are unaware of either the history or the rationality of our rich institutional inheritance, in large part because of its complexity, *but also because no single human has played a major role in creating it.* The great Austrian economist and philosopher F.A. Hayek – 1974 Nobel Laureate in Economics and whose influence on the ideals promulgated by the Centre for Independent Studies is without parallel – argues persuasively that one should *expect* us to be rationally ignorant of most of the institutional structure around us, and of the rationality implicit in its evolution. Institutions, says Hayek, are *created by human action, not by human design.* He refers to 'the astonishing fact, revealed by economics and biology, that order generated without design can far outstrip plans men consciously contrive' (Hayek 1988:8).

Who, one might ask, designed the joint stock corporation, the institution that has come to dominate manufacturing and services industries in the Western world during the twentieth century? Who designed its organisational structures, compensation schemes, controllership functions, production and inventory control techniques, marketing techniques, contractual arrangements for protecting suppliers of long-term debt from wealth expropriation, stock markets, double-entry bookkeeping, accrual accounting, audited accounting reports to the public, dividend policies, and many among others on an extremely long list of features? The answer of course is 'no-one.'

While managers and scholars might be capable of providing rationales – after the fact – for some of these institutional details (I fancy that I earn my living doing just that!), and while some individuals might attempt to take credit for the design of particular techniques, the fundamental reality is that institutional details *evolve as a consequence of human action* and do not arise from individual, rational design.

An Example: Why Do Public Corporations Have Limited Liability?

One prominent feature of twentieth-century joint stock companies –

limited liability – illustrates this important point well. Limited liability means that the most shareholders can lose is their investment in the company. Their liability is limited to their investment; and they have no further liability to meet the company's debts in the event it has insufficient assets to do so. In contrast, the owners of an unincorporated business or of a company with unlimited liability are fully liable for its debts, regardless of how much they have contributed to the business. Why has limited liability become a standard feature of the companies that play such an important part in a modern economy? After all, joint stock companies without limited liability were a popular institutional form with British merchants as early as the seventeenth century, and limited liability did not emerge as an important institutional feature until the nineteenth century.

The typical explanation heard among managers – that limited liability allows companies to raise equity capital more cheaply because shareholders by virtue of limited liability are exposed to less risk – is ruled out by the famous Miller-Modigliani theorem. This theorem tells us that if limited liability reduces the debt-repayment risks faced by suppliers of equity capital and thus makes equity financing cheaper, then it does so by transferring precisely that same amount of risk onto the suppliers of debt, who now have less chance of being repaid, and thus makes debt financing correspondingly more expensive. The two effects precisely cancel. The risk that the company will perform so poorly that its assets become insufficient to meet its debts is not altered by limited liability: it simply is redistributed among classes of investors. Cheap equity capital is not the explanation.

The most likely explanation for limited liability is considerably more sophisticated, and complex, and is due to Armen Alchian (1984). It is based on the efficiency of making agreements (known as the 'cost of contracting' theory of institutions). Suppose you want to contract in some way with a small unincorporated business that has two partners, and you want to know how financially secure your transaction will be. Perhaps the business wants to borrow some money, and you want to lend to it. To determine the security of the transaction you need to know the financial position of the business and also, because the partnership has unlimited liability and you thus have access to the assets of the partners, you need to know the financial position of every partner. Now suppose you want to contract with an organisation that has not two but 50,000 investors. If they are personally liable for its debts, then you now need information on 50,001 financial positions! Worse still, because people transact with each other, one person's assets can be another's liabilities, and to calculate correctly the net amount of security you need information on 50,000 possible financial transactions. Furthermore, investors can trade their shares on the stock market, so you will need to update the information almost continuously. With unlimited liability, the cost of contracting – in this case, the cost of determining the level of security involved and thus the appropriate lending rate to charge – would be prohibitive. So the efficient solution is to eliminate investors' liability for the company's debts, and adjust the lending rate to reflect your higher risk. (Recall that the Miller-Modigliani theorem tells us that this is precisely offset by a reduction in the cost of equity, or share, capital). The economic gain is an enormous reduction in costs of contracting to provide capital, or any other resource (labour or materials, for example) to the company.

Now limited liability is but one feature, among many, of one type of institution at one stage in its evolution. To most of us, it is not a particularly exciting concept, so I thank you for tolerating my long discourse on why companies use it. I have dragged you through it for a purpose: to show that this specific institutional feature originated, became popular, and survived because it made complex contractual relationships among people more efficient, made the production of a range of goods and services less expensive, and thus made people more wealthy – *but without individuals reasoning through or being aware of its fundamental economic rationale at the time.* The contracting-cost rationale that I have just described was published by Alchian fully three centuries after the practice of limited liability emerged, and almost a century after limited liability companies came to dominate large sectors of the economy. Widespread ignorance of its economic rationale was not a barrier to the practice. It was not a planned innovation. It evolved from human activity, even though it was not the result of conscious human design. And the same point applies to the myriad other institutional details that surround us.

Returning to the question posed earlier, who designed the corporation? Limited liability? Consolidated financial statements? Language? The churches? Families?

Languages are extraordinarily complex, and they also are extraordinarily effective, yet as an institution of our society language cannot be said to have been rationally designed by individuals. There is no evidence that seemingly-rational features that are common to most languages, such as the redundancy involved in rules for subject and verb agreement, arose from an individual or group of individuals making rational decisions to incorporate them. Electronic information transmission systems typically incorporate check digits at the end of a string of information or at the end of (say) a long document number, which would be redundant in the absence of communication errors because they would then contain no new information. They thus mimic the evolved rule that a sentence (an identifiable string) contain more than one reference to important properties such as the number of subjects being described.

One of the reasons for the current success of American English, as evidenced by its spread across the globe, is the flexibility with which it has incorporated newly-evolving commercial, scientific and information-processing terminology. It certainly has not been a planned development; on the contrary, the spread of this English dialect has occurred in spite of the attempts of planners – chiefly European – to inhibit it. Language, like other important social institutions, was created by human action, not by human design.

The Impossibility of Successful Central Planning

Socialism involves the belief (Marx strove to elevate it to a science) that central planning can achieve an allocation of resources that is more efficient, and is more consistent with some poorly-specified notion of 'social justice,' than the allocation that can be achieved by individuals acting in a spontaneously-evolving institutional structure. Socialist regimes give to central planners the complex task of deciding which resources (including humans) will be allocated to which uses. Socialism thus contains an embedded belief in the rationality of man: in the ability of individual reason alone to prevail.

Totalitarianism can be viewed in a similar fashion. Totalitarian regimes also tend to promise a higher standard of living and a fairer distribution of wealth. As in socialism, they typically expropriate resources and centralise resource allocation decisions into planning authorities. They implicitly believe in the capacity of individuals to reason their way through complex resource allocation decisions. The most important single factor distinguishing socialism and totalitarianism, in my view – the absence of an extensive academic literature, based on Marxist theory, lionising socialism – is not germane to the point I am seeking to make tonight, which is that central planning under any the guise of any 'ism' suppresses the evolution of complex institutional structures.

It now is a well-known fact that central planning has not succeeded. Evidence ranges from the collapse of the former Soviet Union, to the failure of the extremely well-funded and well-intentioned Great

Society welfare programme to alleviate poverty (by U.S. standards) after three decades, to the unravelling of the once-flaunted Swedish model of 'middle-of-the-road' socialism.

The failure of central planning to achieve its objectives is too consistent be an accident. And it has not been due to lack of will: the Russian experiment was imposed upon its people for seventy years. The failure of central planning is systematic in origin: due, in my opinion, to the simplicity of planned institutional structures, in comparison with the complexity of the tasks assigned to them. The problems of central planning tend to worsen over time, because planning rigidifies institutions, making them unadaptive to change as well as denying them access to evolutionary innovation.

The failure of central planning can be expressed in terms of information. In comparison, the price system makes better use of the dispersed information held by individuals. Prices reflect all of the information used by all who transact, or choose not to transact, in the market. Hayek argues convincingly that socialism fails in comparison with a market economy because it encounters the limits of individual rationality: no individual or group of individual planners knows or feasibly could know all the dispersed information that is contained in prices. Who among us tonight knows all of the information implicit in the price of a humble pin? How difficult was it to mine the raw materials in the cap and in the wire? Where did they come from? What was the labour cost of tending the machine that cuts the wire? Why was each employee willing to work for that wage? How much fuel did the delivery truck consume in getting the pin to the retail store? Where did the rubber in its tyres come from? Who discovered the petroleum it consumes? Who invented the pin-capping process? The list seems endless. But the buyer in a marketplace does not need to know this information: the market price is sufficient. Price incorporates and simplifies all of the dispersed information implicit in getting the product to the marketplace, without any individual having access to that information.

This is a considerably more devastating indictment of socialism than what is taught in typical economics texts and classes. The normal criticism of central planners is that they face the wrong incentives. In a representative democracy, for example, politicians respond to the incentives provided by the electoral process, and as a consequence they distort resource allocation in order to buy votes. They build dams where they should not be built, they create tariff walls to protect inefficient manufacturers and unproductive jobs, they allow teachers to work under contracts that insufficiently reward performance, they create and operate state-owned enterprises with incentives to pad payrolls and squander scarce resources, and they overspend on the Olympics. In a totalitarian regime, the motivation to allocate resources inefficiently – fear of coup or revolution – is perhaps even stronger than fear of the ballot box. The misallocation of resources in the Soviet economy, or in post-revolutionary Cuba for example, thus is hardly surprising.

All of these things undoubtedly are true: the planner who ultimately is answerable to a populace or to an electorate does face incentives to distort resource allocation away from an economically efficient outcome. But Hayek's criticism of central planning is more fundamental than that. He argues that central planners *could not possibly* calculate or implement an undistorted economy if they tried, that they simply could not create a society that they rationally conceive to be efficient or just. The computational task is too great. Consequently, central planners utilise insufficient information and thus destroy wealth and all that accompanies wealth.

The point goes beyond economics. Consider the complex range of information available to a parent concerning each individual child: its likes and dislikes, hopes and fears, strengths and weaknesses, stage of development, health, shoe size, friends, favourite food, dishwashing skills, dependability to mow the lawn, emotional state, whether it has done its maths homework tonight, etc. It is difficult to see how a government agency can be expected to make decisions that are as informed as those made by families, for large numbers of individual children. Here too, planning encounters an information problem that is just too complex.

The notion that society can be put in the seemingly capable hands of – to borrow David Halberstam's phrase – 'the best and the brightest' might seem a comforting thought to some, particularly those who are so anointed, but it is a false comfort. The computational task is more complex, by orders of magnitude, than the capacity of individuals to reason. The task is beyond us; so the objectives of socialism and totalitarianism are impossible to attain. Planning does not work.

The Paradox of Planning: Man's Ignorance of Human Accomplishment

Nevertheless, man continues to plan. One of the insights of classical liberalism is its explanation of why this should be so, in spite of clear evidence that planning is ineffective. It helps one to understand the tendency of individuals – particularly, the intelligent and well-trained intellectual elite – to intervene as planners of the institutional structure, and of the public to believe in their capacity to do so.

Classical liberalism also helps one to understand the importance of institutions such as the Centre for Independent Studies, promulgating the alternative (classical liberal) position, viewing planning under its various guises with extreme scepticism.

Clarification: Meaning of Classical Liberalism

It has become customary on occasions such as this to clarify what one means by 'liberalism,' and to distinguish this meaning from other senses in which the term has been used in public discourse. And for good reason, because the term has come to be used in several different – and confusingly contradictory – ways.

Before proceeding to address the current Australian context, I would like to draw the following important distinctions:

- The term is not being used in the modern U.S. sense, in which a 'liberal' essentially is a social democrat, that is a person who believes in governments liberating individuals of responsibility for their own lives (with devastating consequences) and spending liberally (allegedly on their behalf). This is a perverse inversion of the term's original meaning.
- Nor is the term being used to denote a particular political party. In Australia, both Liberal and Labor parties have exhibited their own blends of both liberal and illiberal behaviour at different times.
- A subtle, but extremely important, distinction – particularly for tonight's purposes – is between two branches of liberalism that developed in different places and times: *classical* and *rationalist* liberalism. I shall be referring to classical liberalism, sometimes described in terms of its origins as English or Manchester liberalism, with its belief in the spontaneous and unplanned (even unplannable) evolution of institutional structure. I shall not be referring to the rationalist-constructivist branch of liberalism, sometimes described as Continental liberalism, with its belief in the ability of men to construct institutions based on individual reason.

III. Deregulation as a Process of Institutional Regeneration

Before commenting on the reforms that are underway in Australia, particularly in the labour market, I would like to make some observations about the nature of those reforms. I will argue that the recent and almost worldwide surge of deregulation is best viewed as a retreat from central planning and an unleashing of institutional regeneration: that is, as a complex, unpredictable and prolonged process.

An Age of Liberty

There can be no doubting that we live in a marvellous age of liberty. While the people of many countries continue to live in appalling squalor, with high mortality, poor education and little freedom from oppressive regimes, there has been an almost worldwide rethinking of the role of the state. The Eastern European experience is well-known. The Czech Republic, Poland and Estonia have dismantled planning with astonishing rapidity. Even in small and impoverished Albania, the Communists were voted out in 1992, and the process of liberalising a ramshackle economy designed around large, inefficient Soviet-style factories has begun. Reforms have been introduced more slowly in other ex-Soviet economies, with consequentially more disappointing results (World Bank 1996).

Governments in most Western European countries have been shedding inefficient state businesses at a rate that few would have predicted a generation ago. The first systematic privatisation policy was initiated in 1957 by Konrad Adenauer in Germany. But it was during Margaret Thatcher's second term of office that privatisation became a household word, the most notable sell-off being British Telecom in 1984. During 1980-95, over A$500 billion of equity shares in businesses that previously were government-owned were sold to investors worldwide (this ignores debt, so the assets disposed were even greater). Research indicates that privatised businesses are more efficient, more profitable, pay higher dividends, have higher sales growth, invest more in expansion, and increase employment at a higher rate, relative to when they were state-managed business (Megginson, Nash and van Randenborgh 1996: 23-24).

Throughout South America, totalitarian regimes have given way to democracies, public debate has shifted sharply away from governments bearing primary responsibility for solving problems, and reform of labour markets and tax codes has begun. Chile, which was the earliest to reform, now is experiencing low unemployment, increases in real wages and a significant fall in the number of people living in poverty. Argentina, Brazil, Mexico and Venezuela are making moves in the same direction.

The welfare state is being radically re-thought in Britain, France, Germany and the United States, among other countries, as a result of mounting evidence that governments are unable to assure universal welfare.

These changes have not left Australia untouched. A variety of financial markets have experienced considerable deregulation, including banking, stockbroking and foreign exchange. Tariffs and agricultural subsidies have been cut. State-owned businesses have been privatised, or are slated for privatisation, including airlines, airports, banks, electricity and gas producers and distributors, and insurance and telephone companies. Universities have been exposed to more competition. Government employees now are subject to greater performance-based review. The present Government is deeply committed to the reform of transportation, the waterfront, and communications. There is public debate on the role of the Australian Government as the primary provider of health and retirement income. Even the largest taboo of the Australian institutional structure – the labour market – seems most unlikely to escape substantial deregulation of some form..

Why Now?

Before commenting on the changes that are underway in Australian social institutions, and what might lie in store, it might be helpful to reflect on the driving forces behind this almost global flowering of liberalism. Why is it happening, and why now?

Several related factors appear to have contributed to the demise of socialism and totalitarianism. These include:

- An enormous reduction in 'information costs' – the costs of gathering, storing, accessing, transmitting and processing information – has irreversibly strengthened the position of individuals in relation to the state. Contrary to Orwell's *1984* predictions, the proliferation of privately-owned PCs, the Internet, fibre-optic and cellular communication, faxes, and a host of telecommunications devices has radically decentralised access to information and thereby has given individuals greatly expanded power over their own lives. We live in an age of unprecedented ability for individuals and smaller groups of individuals to make informed decisions, independent of centralised rule-making. At the same time, there has arisen a greater transparency of the state: individuals are more informed about the actions of the state and their consequences. These two interlinked forces – arming individuals with more information for their own use and with more information about state actions – have transformed the relation between the individual and the state. Just how far the tables have turned is illustrated by the following comparison: as recently as ten years ago, the former Soviet Union required state licenses for possession of that instrument of sedition, the typewriter; and during 1995, the U.S. military experienced 160,000 'hackers' who successfully penetrated some part of its information system. I am not here advocating hacking; the relevant point is this shift in informational advantage that has occurred in favour of decentralised individuals and organisations, relative to centralised organisations and in particular the state.

- In many countries, aging of the population (due in large part to the effect of increased wealth on birth rates and life expectancies) has made it difficult for governments to deliver promised levels of health care, pensions and other benefits for the aged. A generation of welfare had been financed on the basis of a larger number of younger people paying the bills of a smaller number of older people. When the numbers reversed, the system collapsed. Sweden was perhaps the first country to have to face this reality. In effect, governments had been running a 'pyramid' funding scheme on a grand scale – an activity which, if private individuals were found to have committed it, would lead to incarceration by the government!
- An enormous increase in the complexity of goods and services and their production, originating in market institutions, has put planning institutions under greater stress.
- The failure of planning has become more evident with the passage of time. The propaganda originating from the Soviets and their clients managed to fool large numbers of people for as much as seventy years, but the facts gradually emerged.
- Last – but not least – one should not underestimate the power of ideas. As recently as twenty-five years ago, the now commonly-received ideas promulgated by the 'Chicago school,' building on

classical liberalism and the lesser-known 'Austrian school,' were viewed as heretical. Their broader currency is due in no small measure to organisations such as the CIS.

The decline of planning is not an historical accident. It is part of a long process of the evolution of social institutions. It is happening in Australia, and it is happening in competing societies. It will not go away.

The Australian Institutional Heritage

It also might be helpful by way of background to reflect on the historical origins of Australia's contemporary institutional structure. At the most fundamental level, Australia is fortunate to have inherited many of the freedoms of Western European societies, and Anglo-Saxon society in particular, including: democracy, common law, property rights, an independent judiciary, trial by jury, and a chiefly market economy. It has good reason to regret the freedoms it did not inherit, including the extension of the rights of the individual to its native population.

Overlaid on this fundamentally liberal institutional structure was a colonial administrative apparatus that, in my opinion, has exerted a lingering influence on Australian society (see Ball 1987). As you all know, the colonial period started in 1788 and ended, formally at least, with the creation of the Australian Federation on the first day of this century. During colonialism, Australians were protected to an unusual degree from responsibility for dealing with the marketplace. Markets for both products and inputs tended to be arranged by the colonial administration, situated both in the colonies and in London. Adaptation to local conditions was necessary, including technological innovation (e.g. refrigerated shipping, the stump-jumping plough), but in my view the colonial administration sheltered Australians from economic reality during the first formative century. After Federation, Australians lost no time building replacement institutions of planning: within seven years there were the forerunners of the labour laws that have operated until now, an Arbitration Court controlling the labour market, a tariff barrier and restrictive immigration laws. Australia continued to defer to and depend to an unusual degree on London. Not until Britain joined the European Common Market (now the expanded European Union) in 1973, and thereby eliminated preferential treatment for imports of Australian goods, did Australians need to assume full responsibility for their markets. The OPEC-initiated 'resources boom' might have further deferred reality during its brief currency (approximately 1973-1986).

I conclude from this brief survey that the Australian institutional heritage is one of a fundamentally liberal society, with a superimposed dependence on institutions of planning that were colonial in origin. In relation to the latter, it is only within the current generation, and perhaps as recently as a decade ago, that Australians emerged from under the protective shelter of those origins. In my view, this means that the current, and very welcome, moves underway to deregulate the Australian labour market will require considerable institutional regeneration, to which I now turn.

Australia's Labour Institutions

Few countries have imposed such a degree of planning on their labour market as has Australia. The working conditions (including the amount and structure of payment) of millions of employees have been determined centrally by a handful of people. The dominant approach to the employment relationship adopted by labour unions, industrial relations professionals and academics, and also by major employees, has been that of the class society. It is obsolete.

In my view of things, planning and a class-structured society go hand in hand. That is, a class mentality is an inevitable consequence of planning. Planning institutions such as the Conciliation and Arbitration Commission, as it used to be called in my youth, cannot possibly listen to the circumstances and preferences of every single employer and every single employee. Relative to a market, it discards enormous amounts of information. The dimension of the problem is too complex for planning. Planners fall back on less, more-aggregate, information. Planners must group employers and employees into categories, perhaps as few as one of each, in order to act. They seek aggregate information from the alleged representatives of all employees, or all employers, or of significant groups of them. That is, planners need classes.

Philosophically, a class-structured society is extremely repugnant. Economically, it is extremely inefficient: immense amounts of information about differences among individual members of the classes is lost. In a market setting, individuals can (and will) establish voluntary groupings that they perceive to be relatively homogeneous, but they will do so on the basis of their privately-held information. Planners do not have access to that information. The inherent incapacity of planning to process information held by individuals makes its classes larger, more rigid and more arbitrary than the groupings that would emerge in a free market.

In order to deal with national and state labour market planning institutions, and to operate under labour market laws, both employers and employees are required to create bureaucracies (unions, industrial relations departments and employer organisations) that generate further rigidity. The employment relation becomes codified into rigid work rules and rigid compensation rules.

One of the pernicious consequences of work rules is the near-elimination of individual responsibility for, and interest in, personal development. The employee is encouraged to define his or her lifetime contribution as carrying out fixed, externally-imposed functions. Several years ago, my family visited what then was the Soviet Union. One of the startling observations was the extent to which, in what according to Marxist theory was a worker's paradise, employees were dispirited, uninterested in their jobs, and seemingly devoid of prospects for personal improvement within their workplace.

The philosophy of a class-structured society has been enshrined by mainstream Australian academic teaching and research in Industrial Relations. Given a choice between critiquing the institutional structure and building theory that embodies class as a premise, they have tended to choose the latter. They have become one of the last outposts of Marxism.

The rigidity of a planned labour market suppresses institutional evolution. It reduces the capacity to create wealth-enhancing innovation, and to respond to innovation elsewhere. This rigidity defers the costs of adjusting to reality, but it only accumulates the size and the cost of adjusting, until the pain involved is considerable. Current work practices tend to be treated as hard-won rights, never to be surrendered, even in the face of sufficient change to make them appear ludicrous.

A case in point is the institutional innovations of Japanese auto manufacturers that, by utilising more of the information possessed by employees, made their cars both more reliable and cheaper to produce. They discovered, for example, that the employees who know the most about whether tasks have been performed correctly on the assembly line are not supervisors, but employees downstream on the line. Errors are more visible to them, particularly if they interfere with their own downstream task in any way. By getting the employees to take collective responsibility for quality, and by giving each employee the right to stop the line in order to have an upstream error corrected, they achieved astonishing results – including job security for employees. This institutional invention involves creating self-monitoring groups, and taking decision rights away from supervisors and placing them where the information is. It cuts across the supervisor-employee class distinction, enshrined in Australian labour law, practice, mythology, theory and teaching. Even though it enriches the employee's life, such an innovation is unlikely to originate in a planned labour market, which tends to rigidify existing work rules and preserve class distinctions.

A further aspect of labour market planning occurs at the macro level. Governments and oppositions routinely politicise the unemployment level: the one takes credit for decreases, and the other assigns blame for increases. Because societies with flexible labour markets adjust more quickly to change, the best prescription for unemployment is to eliminate the government from responsibility for it, except for hard core cases. I therefore applaud the current Government's proposal to limit the role of a renamed Commonwealth Employment Service to a 'safety net' for people with long-term employment problems, transferring the primary responsibility for employment search onto the individual.

Labour market planning does not serve employees, employers, investors, customers or suppliers in the long term. It is one of the last areas slated for institutional reform, largely because of the complexity of the employment relation and the large number of people affected. These factors make labour market reform both logistically and politically very difficult.

Labour Market Reform

Labour market reform requires two phases. First, it involves dismantling the institutions of planning. Second, it involves the regeneration of institutions to replace them. The latter phase is the more difficult, in my view. It seems likely to be a long process, with outcomes that are not easy to predict.

It is important to recognise that a person's lifetime of employment is a complex issue. It involves adaptation to changing circumstances and personal growth over a very long period, in which much can change. Employees need to see themselves as having to *earn* lifetime employment: that is, as having to contribute (albeit in changing ways) over their employment tenure. Employers need to encourage employees to make personal investments in improving their contribution, even when that investment has no value outside the employer organisation. They therefore need practices to encourage and thus to reward risk-taking and loyalty to the organisation. These are complex issues. If they are to move away from a rigid work-rules mentality, both employers and employees will need to totally rethink their responsibilities to each other.

There will be a period of institutional renewal, which will involve trial and error. The institutional practices that will emerge are impossible to predict. The parties involved will need to be flexible.

Labour market deregulation and renewal will require shifts in attitudes to responsibility for the lifelong employment relation by families, schools, universities, churches, employers and the media, as well as governments. My concern is that much of the public debate appears to be focusing on the first phase, without much thought as to what replaces planning. To some degree, this focus is encouraged by rationalist liberal economists whose analysis tends to stop at the dismantling of planning. To make music, one certainly needs an instrument, but one also needs to learn how to play it.

Venture Capital Market Reform

One cannot stop change. One cannot stop what has become known as 'downsizing.' Historical examples of downsizing include agriculture, buggy whip manufacturers, blood-letters, nightsoil carriers, troop demobilisation, and (more recently) middle-management bureaucracies. Do we still want 90 per cent of the population employed in agriculture? I think not.

The question is how to make change less costly. Government-sourced systems, including retraining schemes, extended unemployment benefits and government responsibility for job search, do not appear to be the answer.

In addition to the desired labour market flexibility alluded to above, reducing the costs of inevitable change requires capital market flexibility. In particular, it requires a developed, flexible venture capital market, that can quickly funnel capital to start-up companies emanating from people who voluntarily or involuntarily leave employment.

A case in point originated in Rochester NY, where my family currently lives, a city of only 230,000 people. In 1971 General Dynamics closed an obsolete electronics plant employing 1,800 people. The employment losses included many more people servicing the plant and its employees. At the time, the local Congressman called it 'the most severe blow to Rochester since before World War II.' The times were strikingly similar to the present, in that unemployment levels among white-collar and professional employees was such that

Time magazine referred to 'the new face of unemployment.' But twenty-five years later, *The Washington Post* called the General Dynamics closing 'a blessing in disguise' for Rochester. From the discarded professional and managerial employees (many of whom were immigrants from Belgium, Norway, Sweden and the U.K.) arose a variety of start-up businesses that currently employ an order of magnitude of more than 1,800 people. Edward McDonald, who went on to establish a profitable sonar equipment company, is quoted as having run into the former divisional general manager who had announced his retrenchment and as having said: 'By closing down the facility in Rochester, you made me a multimillionaire. Thank you. It forced me to do something I never would have done.'

One lesson in the General Dynamics case is that the employees at the time of retrenchment were employable, productive people. A second lesson is that they were able to start new ventures that came to employ many more people, which requires access to venture capital. In my view, it is important to link unemployment to the flexibility of both labour and capital markets.

A third lesson concerns capital gains taxes. The businesses created out of General Dynamics would not have occurred without incentives for the retrenched employees to take on risky and personally challenging new frontiers. Punitive capital gains taxes would have suppressed the creation of both products, capital and jobs.

The Australian venture capital market is primitive. In my view, the single most important inhibitor to the development of the new businesses founded on new ideas is the harsh Australian capital gains tax regime. And it is the businesses founded on new ideas – in contrast to those that simply take old ideas and old jobs away from existing businesses – that will in turn create new jobs.

III. Concluding Observations

I hope that in the brief time available to us this evening I have been able to convey some sense of three closely-related themes. First, we owe a great deal of our prosperity, health, liberty and general well-being to the complex institutional structure that we have evolved over the centuries, not to 'natural resources' or education or technology per se. Second, complex institutions evolve primarily as a consequence of seemingly uncoordinated human action, not of rational human design, and thus we as individuals cannot possibly comprehend all of the rationality that is implicit in them. Third, our future prosperity (together with the benefits that prosperity endows) depends critically upon our willingness to avoid what Hayek termed the 'fatal conceit,' that is the temptation to believe that we as individuals – or even the best and the brightest among us – can bring greater prosperity by interfering with or impeding the human process of institutional innovation.

I cannot improve upon the words of Hayek himself, taken from the concluding paragraph of his Nobel Memorial Lecture:

> If man is not to do more harm than good in his efforts to improve the social order, he will have to learn that in this, as in all other fields where essential complexity of an organised kind prevails, he cannot acquire the full knowledge which would make mastery of the events possible. He will therefore have to use what knowledge he can achieve, not to shape the results as the craftsman shapes his handiwork, but rather to cultivate a growth by providing the appropriate environment, in the manner in which the gardener does this for his plants (Hayek 1978:34).

This, as I understand and interpret it, is the mission that the Centre for Independent Studies has chosen: the intellectual defence of a liberal society, devoid as far as possible of the arrogance of planning, and open as far as possible to the human process of institutional innovation that has brought us the prosperity we enjoy. It is why I am so happy to be associated with the Centre, and to have delivered the 1996 John Bonython Lecture to you this evening.

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Vote of Thanks

Peter Dodd
Board Member
The Centre for Independent Studies

It is my great pleasure to be here tonight to give the vote of thanks to Ray.

I first met Ray in Brisbane in 1973. I came from a country background, in Newcastle, and ran into Ball and Officer from Chicago. It was quite a shock to the system. I then followed the well-trodden path to Chicago, Rochester and back to Australia. In that twenty-five years it is fair to say that Ray Ball has had more impact on my way of thinking about the world than anyone else, and I still find him today to be one of the most insightful people to be around.

It is to me interesting that Ray chose to speak about complex institutions and their evolution in Australia. Ray's tenure in Australia in the 1970s and 1980s was associated with important changes in capital markets, the way investment fund managers thought and behaved, and of course in business schools and universities. It is fair to say that there are no more complex institutions in our society than the capital markets and universities.

Ray has taken the Hayekian notion of the problem of planning and expanded on it. We are all aware of the failure of the Soviet bloc, but from my listening to Ray tonight I focus on a few points.

In our society we still have a prevalence of planning. We should not underestimate the amount of planning that still goes on in our society, and the organisations committed to planning. I wonder about the ACCC and the Reserve Bank, two institutions that deep down have incentives to try to outplan the market.

I was interested to hear Ray talk about microeconomic reform, an area close to my heart. These reforms are complex changes. Ray's point is that in making these changes we are making a retreat from planning. We should expect that there should be difficult times, with some trial and error. I think we witnessed that with the hugely successful Victorian electricity privatisations, and it is something we should take account of in designing those processes.

I also think about the public sector management issue. Whenever I get involved in the initial stages of a privatisation the perennial statement from the public sector is that they can manage as well as the private sector – good people, good assets . The point that Ray makes is that despite the best intentions and best incentives you can't get it right, it is futile to try to outplan and mimic the markets.

If you could walk down the hallowed halls of the various government departments where there are still legions of people instructed to plan, maybe the best thing you could do would be to throw out all their books by Peter Drucker on how to manage and give them a good dose of Hayek to read and understand.

Institutions are very important. We think the CIS is a very important institution which has evolved for twenty years. Tonight is an important part of our history, and it is great that Ray can be here. We are about ideas – today's ideas are tomorrow's actions, and that is what the CIS stands for. Ray has given us a lot of ideas tonight, and I'd like you to join with me in thanking him for delivering a very thought-provoking lecture.

Just finally these nights do not happen without a lot of work, and the CIS staff have done a great job. I'd like thank Jane Hindmarsh and Patrick Shand for their efforts. Have a great night.

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Institutions of Innovation and Prosperity

Ray Ball

Western nations benefit from social institutions that create prosperity and liberty. The separation of the economic and political spheres, and the emergence of institutions of private property and markets, were crucial developments in Western history. The sources of these institutions are often ill-understood. They were not the product of planning by a single individual or organisation, but evolved over time. They were the product of human action, but not of human design. In turn, these institutions facilitate innovation by allowing for change as needed. Central planners are unable to adjust for change in the way of markets, and this is a key reason for the failure of socialist economies. Professor Ball argues that our future prosperity depends on avoiding the temptation to believe that we can bring greater prosperity by interfering with the processes of institutional innovation.

Ray Ball was born in Sydney in 1944. His original degree was in Commerce from UNSW. From UNSW he went on to the University of Chicago, completing an MBA in 1968 and a PhD in Economics in 1972. In 1972 at age 26 he was made Australia's youngest ever Professor, in Accounting and Business Finance at the University of Queensland. The appointment was made on the strength of his study of sharemarkets, which was a seminal work on how markets operate. In 1976 he was made a Foundation Professor at the Australian Graduate School of Management at UNSW. In this time he established his links with the Centre for Independent Studies, becoming a member of its Council of Academic Advisors in 1979, a position he still holds. In 1986 he became Professor of Accounting at the William E. Simon Graduate School of Business Administration at Rochester University in New York state. He is now also a Visiting Professor of Accounting at the London Business School.

The John Bonython Lecture Series was inaugurated by the Centre for Independent Studies in 1984 to honour the founding Chairman of its Board of Trustees. Each year the Centre sponsors a lecture to examine the relationship between individuals and the economic, social and political forces that make up a free society. The lectures are published as part of the CIS Occasional Papers Series.

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