qualified expositors, defenders, and improvers of the free enterprise system—the system under which this nation lives.

This action is obligatory—if we wish a third century of capitalism to materialize. We must accelerate our efforts to understand, preserve, and improve the most productive economic system ever generated in all of the history of mankind.

—FOOTNOTES—

[1]"... There are now no fewer than 87 Federal entities that regulate U.S. business, and to complete the 4,400 different forms they dispense requires 143 million man-hours of executive and clerical effort each year. The regulators are proposing so many new rules that the *Federal Register* has ballooned in size to nearly 70,000 pages annually ... Economist Murray L. Weidenbaum of the Center for the Study of American Business at Washington University, has estimated the total annual bill at $103 billion..." *Newsweek*, June 12, 1978, p. 86.

See also: *Time to Control Runaway Regulation* by Murray L. Weidenbaum, *Reader's Digest*, June 1979, pp. 98–102.

"There are 88,200,000 Americans supported by government ... yet there are only 71,900,000 Americans (employed by the private sector) to foot the bill by paying taxes on their productive earnings."—*Tax Target, Washington* by Gary Allen, p. 19.

[2]Policy paper, Center for Research in Governmental Policy and Business, The University of Rochester, May 1976.

[3]When a business fails to earn a profit, "there are no dividends for stockholders. There are no quality products or services for customers. There are no jobs for employees. And there are no taxes to support the increasing number of things our citizens now take for granted: educational facilities for our children and ourselves, protection against fire, protection against crime, protection against illness, to name but a few of the public services paid for by corporate taxes as well as the individual income taxes that you and I pay."—*Dimension*, May 1968, p. 12.

[4]According to a report of the National Taxpayers' Union, 1980, each citizen's share of the federal debt ($9.03 trillion) was over $112,000.

[5]"The Department of Energy ... will cost taxpayers $10.6 billion in its first year (and more in succeeding years)." This cost "is greater than the total amount of money that will be spent this year by all of the oil and natural gas producers in the United States for drilling and exploration. *And it will not produce one drop of oil or natural gas.*"—*American Cause*, Vol. III, No. 9, October 1977.

[6]"... We in this country in the past half century have been moving from a free society and toward an increasing degree of slavery. Not the kind of slavery that Lincoln talked about, but a kind that is no less destructive of the basic greatness and freedom of this country, a slavery in the form of an increasing role of government in our country, of an increasing extent to which we are the subjects and the government the master, instead of the other way around.

"If we continue the trend to a collective economy, a society controlled by government, we shall lose not only our economic advantage but also our political freedom ..." *Milton Friedman*: Address: National Association of Manufacturers Congress of Industry, 1978.

[7]"All that is necessary for the forces of evil to win the world is for enough good men to do nothing." Edmund Burke, 1739–1797.

[8]"If the road to serfdom—government control and economic decline—is paved with ever-increasing proportions of the earnings of individuals taken by government, then the road to freedom and economic prosperity is paved with savings. It is the lifeblood of investment and economic growth." American Economic Foundation, National and Informational Report, Vol. I, No. 4, April 1980.

Lawrence W. Reed

THE ROLE OF INCENTIVE

THERE'S a great deal of talk these days about *incentives*. An incentive is something which incites one to action. It is a spur, a motive, a provocation, a goad, a stimulus. Economists have long understood that the incentive *to act* is the prospect of the action yielding benefits to the actor. Because of that fact, particular incentives and incentive structures explain a very great deal of the economic world which swirls around us.

People respond to incentives and to their opposite, disincentives. An individual will feel compelled to respond favorably to something which promises great personal benefit at low cost or risk. The same individual will tend to turn away from those things which deliver little or no benefit, especially if they do so only at high cost. He will positively shun those things which would set his progress back, much as a hot stove is a disincentive to bare hands. *Human choice is thus influenced by economic incentives and by changes in economic incentives.* Let's take a look at "real world" happenings and see how this might explain some things.

Many people complain today about the poor schooling their children receive in public schools. Declining test scores and a breakdown of discipline in the classroom, even as the costs of schooling rise, bear testimony to the failure of public education. Does this happen because public school teachers and administrators do not wish to provide a quality product? Not really.

There is no reason to believe that public school teachers and administrators are any less desirous than other people that quality education be imparted. They are, however, responding to a peculiar set of incentive structures. I ask the reader, what would *your* performance be like if your business could legally draft customers and compel them, under

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