

Inclusion of *Atlas Shrugged* in Economics Classes

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Abstract

In her novel *Atlas Shrugged*, Ayn Rand makes a strong argument for an economy based on free enterprise without government interference. The book, published 52 years ago, remains a “bestseller.” This paper relates how *Atlas Shrugged* has been successfully integrated into an economics course. Seven current economic topics are covered with illustrations from the novel and the counter-arguments of others. Insights on how to include the novel are discussed. Using an exciting and controversial novel to create class interest has been highly effective in stimulating discussion and research.

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I. Introduction

In 1957 Ayn Rand published *Atlas Shrugged*, which has become one of the most popular novels of the past half-century (The Week, 2009). The only book with a focus on economics that has outsold this one is Adam Smith’s *Wealth of Nations*. The use of *Atlas Shrugged* on college campuses has accelerated as the United States contemplates renewed calls for government regulation, large government interventions into markets, and expanding public programs. The distribution of Rand’s philosophy, Objectivism,¹ and pro-capitalism ideals has been significantly expanded by the establishment of some 60 university programs with support from the BB&T Foundation (CISC, 2009). In addition, attention is being given in collegiate circles to “Taking the Right Seriously” (Lilla, 2009).

¹ An excellent primer on Objectivism can be found at <http://www.PrinciplesOfAFreeSociety.com>.

By using a suspense novel, Rand was able to advance certain moral and economic concepts.

Atlas Shrugged demonstrates two economic positions. The first illustrates how entrepreneurs' efforts contribute to economic prosperity. The second details the obstacles that the political process places in the way of innovative activity. In the novel the U.S. economy is in free-fall, and the "prime movers" in the economy go on strike. Motivated by the novel's hero John Galt, the strikers withhold their "grand talents" from an oppressive society, with many ultimately fleeing west to a mountain valley hideout. As Galt stated, each striker chooses "...not to work in his own profession, not to give the world the benefit of his mind" (p.747). For Rand the strike was motivated more by moral positions than economic reasons.

We suggest that several hurdles have limited a broader inclusion of *Atlas Shrugged* into economics curricula. We reduce those hurdles by the use of the book as a springboard for economic debate rather than free-market indoctrination. We identify seven major economic areas in which the book provides a more stimulating basis for student inquiry compared to traditional economic texts. Along with Rand's stand and representative scenes from the book, we briefly indicate the counter-case espoused by others. Finally, we give some insights into our own classroom experience in the type of questions students raise while reading *Atlas Shrugged* and the ensuing vibrant debates.

II. Where does *Atlas Shrugged* Fit in the Economics Curriculum?

We have used the novel as the primary resource in an upper-division Comparative Economic Systems course. Through that experience we have gained valuable insight as to how this literary classic can be best utilized to broaden students' understanding of fundamental economic issues. Certainly *Atlas Shrugged* contains ideas that are consistent with other accepted economic philosophies and relevant to the problems faced by today's economy. When published, "the Left was appalled by its blatant pro-capitalism; the religious Right rebelled against its rejection of religion" (Berliner, 2009, p.134). As a catalyst for inquiry, the novel enlivens the "dismal science."

There are several barriers to the use of the book in economics classes. One is Rand's emphasis on the moral basis for capitalism rather than traditional efficiency arguments that are found explicitly or subtly (e.g., unfettered markets maximize total surplus) in major

economics texts. Although Rand's free market approach was quite similar to the economic ideals set forth by Adam Smith, Milton Friedman, the political agenda of Libertarians and conservative politicians, Rand distanced herself from alignment with these groups and was often highly critical rather than complimentary of them because of their emphasis on economic efficiency rather than morality (Mayhew, 2005).

Her support of free markets is unqualified on moral grounds. In this regard she differs from economic thinkers dating back to Adam Smith, who favored the market primarily for its efficiency. Like others, Rand sees self-interest as a motivating force for individuals to innovate and respond to demand as expressed by prices. However, Rand's justification for the market is unique, as she sees the "trader" principle to be the basis of its morality. Trading is a just system based on each individual deserving what they earn and not deserving what others have earned. There is no moral justification for redistribution of resources according to some subjective notion of "fairness." There is no coercion, as each individual is free to trade with another, and both will enter the bargain only if both see themselves as bettered.

Other hindrances to wider adoption of *Atlas Shrugged* stem from the novel's length, the author's scholarly association with philosophy rather than a business discipline, and the use of fiction including a number of subplots (e.g., Rand's view on sex) that are not relevant to capitalism's ideas. One further hurdle presented by the novel is an unapologetic and unwavering vision of capitalism's glory and socialism's shame. In our experience many students have found Rand's characterization of capitalistic heroes and heroines as well as socialistic half-wits as over-the-top simplifications of the motives and successes of these individuals. Students need to see this as a novel. As is the case in most novels (as well as movies), characterizations are often oversimplified for effect.

In presenting *Atlas Shrugged*, a conservative-leaning economic professor may be tempted to push for the pure capitalism story. In our experience students have benefited from a neutral starting point with arguments for both capitalism and socialism given "fair time." This allows students to investigate the evidence for each school of thought and reach their own conclusions on the relative merits of how best to structure an economy.

III. Role of Government

The case for government intervention in the economy is a comparatively recent development in economics, with “welfare economics” first proffered by Pigou (2006), who discussed the causes of market failure. The most definitive works were those of Baumol (1952) and Bator (1958), who were making the case for more government intervention at the same time Rand was protesting the amount already in place.

Welfare economics sees the market economy as deficient in five major areas: the failure to produce “public goods,” the production of “externalities,” the existence of “imperfect markets,” the creation of a suboptimal distribution of income, and the tendency toward economic instability. Each of these perceived deficiencies in the market’s response suggests a role for government intervention and regulation.

Ardent supporters of free market capitalism such as Rand advocate government provision of national defense and court systems on the basis that these protect individual liberties and property rights. As the book’s hero and organizer of the strike, John Galt, states, “The only proper functions of government are: the police, to protect you from criminals; the army, to protect you from foreign invaders; and the courts to protect your property and contracts...” (p.973). However, other government actions, such as public education, regulation (e.g., antitrust), and welfare assistance, are viewed by Rand as major and immoral intrusions on individual freedoms because they involve a coercive redistribution of earned income. Rand’s work places no value on governmental intrusions into the market economy.

The trader principle theme is developed in the opening chapter with the conflict between the novel’s heroine, Dagny Taggart, Vice President of Taggart Transcontinental Railway, and the company president, her brother Jim. Dagny represents the free market philosophy of hard work, innovation, and seeking the best possible trade. Jim represents the socialist impulse, as he favors government intervention to give the “little guy” a chance and sacrifices economic efficiency for the “public good.”

When on trial for failing to follow a government directive to allocate his superior metal to all those who wanted it rather than to those willing to pay, Hank Rearden tells the court:

I work for nothing but my own profit – which I make by selling a product they need to men who are willing and able to buy it. I do not produce it for their benefit at the expense of mine, and they do not buy it for my benefit at the expense of theirs...we deal as equals by mutual consent to mutual advantage (p.444).

The irony of professors employed by state universities (as we are) in using a book questioning public education is not lost on our students. Many students recognize the benefit of their own educational tab being (involuntarily) picked up by others. It is of tremendous interest to students as to where the line is drawn in public versus private markets including education, health care, retirement savings (social security), and public works. Because of the current and continuing attention given to the proper role of government involvement in health care, environmental regulation, securities market controls, and taxation, students are challenged to consider Rand's arguments against the views they may have held previously.

In two additional areas Rand's views appear prophetic: the growth of government involvement in the economy and the expansion of the "welfare state." The size of the government sector as a percentage of Gross National Product has declined from 29 percent the year the book was published to 18 percent in 2007 (BEA, 2008). This will change due to the recession and stimulus package. However, the extent of government intervention can be seen from the growth of governmental regulatory bodies. There were fewer than 30 federal regulatory agencies in 1959; now there are more than 60 (Weidenbaum, 2004). Government activity imposes a "regulatory tax" that is hidden in the price of products. In Rand's view, such deception is immoral.

IV. Taxes

One of the reasons for the strike and escape of productive entrepreneurs to the western hideout is to avoid high taxes whose primary purpose is income redistribution. This is illustrated by the pirate Ragnar Danneskjold, who robs ships to return the wealth, in the form of gold, to those who earned it rather than allowing the government who seized it to redistribute it to foreign failing socialist

nations. He explains why he feels Robin Hood's memory should be erased:

He is remembered not as a champion of *property*, but as a champion of *need*, not as a defender of the robbed, but as a provider of the poor. He is held to be the first man, who assumed a halo of virtue by practicing charity with wealth which he did not own, by giving away goods which he had not produced, by making others pay for the luxury of his pity (p.532).

Taxes have become less progressive compared to when Rand wrote in 1957. The top individual marginal rates have fallen from 90 to 35 percent. Business taxes have also been reduced, as have taxes on capital gains. However, the overall size of the federal government has remained fairly stable over the past half century at approximately 18% of the economy. At a time in the United States when there are plans to roll back the tax cuts of recent years and to impose "excess profits" taxes and marginal rates of 90 percent on certain forms of income, the validity of the Laffer curve (2004) is worthy of renewed investigation. Even Keynes (1936) admitted that there was a point at which the rate of taxation would produce negative results both on governmental revenue and entrepreneurial effort. He and others had no way of knowing how high that rate would be. When reading *Atlas Shrugged*, students find this issue intriguing and research the issue further.

V. Income Distribution

The market distributes income according to factor contribution and market demand for what the factor produces. Rand feels this is appropriate. She saw those who sought to redistribute income as either "moochers" (those who claimed the income of others by denying any moral justification for higher incomes and demanding a share of others' income as a "right") or as "looters" (those who use the coercive power of the government to take the property of others in the name of "public welfare"). As demonstrated in the book, redistributive coercion emanates from two sources: government action through taxation or regulation, and religious traditions that employ "guilt" to achieve the same end result.

Today few would argue against capitalism as a powerful system to create wealth. However, to capitalism's critics, there are no natural mechanisms to ensure that a minority could be left in poverty. In this view, rewards based on productivity are "unfair," as natural abilities are genetically based and therefore unearned (Sorensen, 1997). In the book this position is taken by Orren Boyle, the owner of a steel company that is being forced out of business by Rearden, a more efficient competitor with a better product: "How can we compete with a man who's got a corner on God's resources?" (p.50). Rand's answer is provided in John Galt's radio speech:

You praise any venture that claims to be non-profit, and damn the men who made the profits that make the venture possible. You regard as "in the public interest" a project serving those who do not pay; it is not in the public interest to provide any services for those who do the paying. "Public benefit" is anything given as alms; to engage in trade is to injure the public. "Public welfare is the welfare of those who do not earn it..." (p.961).

Government transfer payments have been the largest source of public sector expansion since the mid-1960s – totaling more than \$1.5 billion in 2006 (BEA, 2008). Rand's position on government welfare is unequivocal. Galt states, "Do you ask what moral obligation I owe to my fellowmen? None..." (p.936). His radio address ends with his credo, "I swear – by my life and love of it – that I will never live for the sake of another man, nor ask another man to live for mine" (p.979).

Those and similar statements present the greatest problem for many of our students regarding Rand's economic philosophy, namely what to do about the "deserving poor." The concept of the deserving poor has been around for centuries and refers to those who for no fault or moral failure of their own become destitute (Hindle, 2004). Although there is no precise measure or definition of those who deserve and those who are lazy, stupid, or have too many babies, the question of what to do for them remains. If one freely chooses to be charitable, Rand will have no problem, but when charity is coerced through involuntary taxation and public transfers, she views it as immoral. The government's obligation to redistribute income always excites vigorous student inquiry and debate.

VI. The Role of the Entrepreneur

As Gilder (1984) and Gunderson (2005) so aptly note, it is the entrepreneur who in all times and in all places is the prime mover of human progress. As epitomized by many of the achievements of the strikers in *Atlas Shrugged*, the advancement of an entire society is dependent on their actions. Rand calls them the “immovable movers” – those rare individuals who are responsible for innovation and progress.

In the novel the efforts of government have shackled entrepreneurial effort, compounding the economic decline and plunging the economy into chaos and ruin. A repudiation of entrepreneurship is illustrated in *Atlas Shrugged* by the introduction of a new “Rearden metal” named for its inventor. In the book the product was stronger and less expensive than steel. Horrified that use of the new metal would bankrupt the steel companies and put their workers out of business, the government first tried to keep it off the market as “untested.” But when the value of the product was demonstrated, the government reversed itself by enacting the “fair-share” law in which each manufacturer wanting Rearden metal was to receive an amount determined by the percentage requested by users compared to total requests.

Rand predicted the rise of “rent seekers” replacing her “prime movers” (DeBow, 1992). Rent seekers improve the company’s bottom line by obtaining favorable governmental legislation and regulation rather than innovating and improving efficiency. Lehne (2006) found more than 12,500 contract lobbyists in Washington, D.C., in addition to at least an equal number who were employees of trade associations, unions, and other special interest groups.

Two of the novel’s characters illustrate how rent seekers are replacing innovators. Orren Boyle has gained influence solely on the basis of his political activities. Jim Taggart, President of Taggart Transcontinental, works with Boyle to secure the implementation of the governmental policies that are designed to preserve his firm’s position at the expense of the public.

In *Atlas Shrugged* the government has enacted a variety of programs to deal with the collapse of the economy at the behest of these influence peddlers. The justification is provided by Rand’s architect of government intervention, Wesley Mouch. Mouch has become an economic “dictator.” He supports government intervention under the noble pretense, “In the name of the general

welfare, to protect the people's security, to achieve full equality and total stability..." (p.497).

Most comprehensive among these interventions is Directive 10-289, which requires that all workers must remain at their jobs and not quit; all business must remain in operation and their owners not leave or retire; patents and copyrights must be turned over to the state; no new inventions could be introduced or sold; no one nor enterprise could produce more or less than what they did last year; all individuals and firms should spend the same amount as they spent in the previous year; and all forms of income must be frozen at current levels with the economy to be managed by a Unification Board. Not surprisingly, the only thing not frozen was taxes.

In Rand's scenario, faced with ruinous competition, the railroad moguls agreed to the "anti-dog-eat-dog rule." Under its provisions, "...every member pledged to subordinate his interests to those of the industry as a whole" (p.75). Under the rule price, competition was prohibited with rates set high, market areas were assigned, and innovation could not be introduced to disadvantage another firm. At the climax of the novel, the railroads had collapsed. Their workers had deserted, their roadbeds and tunnels were impassable, and their rolling stock and locomotives had been cannibalized.

As a final blow to entrepreneurship, under the "Equalization of Opportunity Act" inventors were required to convey "voluntarily" the rights to their patents and copyrights to the government. This was done through the use of "gift certificates" so that the "greed" of the inventor would instead become the "good" of society. Throughout the book those involved with the government show contempt not only for intellectual property but for all forms of property rights. As Claude Slagenhop, President of the Friends for Global Progress, states in the novel,

When the masses are destitute and yet there are goods available, it is idiotic to expect people to be stopped by some scrap of paper called a property deed. Property rights are a superstition. One holds property only by the courtesy of those who don't seize it. The people can seize it at any moment. If they can, why shouldn't they? They need it, need is the only consideration (p.130).

During these times when there are politicians crying for additional taxes on the “wealthy,” limitations on patent protections, and systems for free or reduced costs for products that people “need,” this discussion is timely. For our students the discussion was integrated with an investigation of the role that business now plays in manipulating the political system. Students were challenged to find laws and proposed legislation that were similar to those dramatized in *Atlas Shrugged*.

VII. Labor Contracts and Too Big to Fail

What happened to Twentieth Century Motors in the novel has proven to be an interesting case study for our students regarding the demise of the American automobile industry. In the book the company is reorganized along the Marxian principle of “from each according to his ability, to each according to his need.” The workers collectively decide whose needs are most urgent. Because “need” is subjective, the workers fight over whose needs should have priority. At the same time, the incentive to work without reaping reward drives out the able workers. As a destitute former employee told Dagny Taggart:

Try pouring water into a tank where there’s a pipe at the bottom draining it out faster than your pour it in...the more you work the more is demanded from you...its theirs to receive, from diapers to dentures and yours to work...without rest, without hope and without end (p.608).

The collapse of the company was inevitable.

While the labor policies of the big three in the auto industry did not reach the extreme of those at Twentieth Century Motors, there are sufficient similarities to make comparison illustrative. The high employee costs, inefficient work rules, and excessive “job creation” certainly had a role, if not the major one, in the demise of these companies. The bailout of Chrysler and General Motors as well as financial institutions provokes heated class interaction as well as research into the problems faced by the automakers.

The current concept of “Too Big to Fail” (TBTF) presents a challenge to a fundamental tenet of Rand’s view of capitalism: failure is a necessary purging of inefficient firms in favor of more competitive ones. Schumpeter (1950) called this “creative

destruction,” which led to a more efficient utilization of resources and ultimately a higher level of consumer satisfaction and economic growth.

The support for TBTF rests on the idea that if a large corporation or large parts of a sector thought to be critical to the nation’s economy collapses, the ramifications are not limited to that sector. TBTF arises from the economic ties within the economy that create a cascading effect. Recently this reasoning has been forcefully applied in the financial sector and to the automotive industry (Dodd, 2008; Chossudovsky, 2008). One observer has suggested a contrarian view: that the failure of the automobile industry’s “Big Three” is due to their failure to adapt to a changing world market and to them continuing to produce large, inefficient, expensive cars as compared to those offered by foreign-owned firms (Friedman, 2008).

Rand accepts Schumpeter’s analysis and rejects the idea of TBTF. In the novel the State Science Institute opposed the marketing of Rearden Metal, not on scientific grounds, but on social grounds. Dr. Potter, Chairman of the Institute, confronts Hank Rearden with the request to keep the new product off the market, “...we cannot afford to permit the expansion of a steel company that produces too much, because it might throw out of business the companies that produce too little, thus creating an unbalanced economy...” (p.179).

Through the “Equalization of Economic Opportunity Bill” the government attempts to save “failing firms” by providing subsidies, restricting competition, and increasing regulation. Under the “Railroad Unification Act” all the railroads are in a “pool” using each other’s equipment and tracks without charge. At the end of the year the income is distributed, “... not on the haphazard, old-fashioned basis of the number of trains run or the tonnage of freight carried, but on the basis of its need...” (p.770). In the novel none of these governmental policies are successful.

Rather than the capitalists striking by withdrawal from the economy, a modern twist on the plot of *Atlas Shrugged* is for them to take excessive risks. The economy is ruined by the chances they take not with their own money but with that of others. Has the economic environment of today led to the creation of TBTF situations? As explained by Arrow (1971), when a party is insulated from risk, it is more likely to take greater risks as it does not carry the full consequences if the risk fails. This insurance creates a “moral hazard.” Today TBTF firms are insulated from failure by the

assurance of government bailouts. The penalty of unwise risk taking is reduced, which provides an example of “moral hazard” with the risk takers playing a “heads I win, tails society loses” strategy.

The current meltdown in financial institutions is seen as a result of “moral hazard” (Brown, 2008; Lewis, 2007). Financial institutions made risky loans in hopes of high returns. Because the risk to depositors is, at least in part, insured, the precedent set by past bailouts may have caused lenders and those who created derivatives to believe that they would not fully (or personally) be responsible. Although not mentioned in *Atlas Shrugged*, the moral hazard created by government policies is present as the firms sought to minimize their risks through government protection. Very few students are familiar with the concept of “moral hazard,” and using Rand’s work was an excellent way to introduce the topic.

VIII. Business Cycles and Government Intervention

A further critique of capitalism surrounds the ability of markets to limit and self-correct economic downturns. The critique provided by John Maynard Keynes (1936) and his disciples Hansen (1953) and Samuelson (1947) states that free markets are incapable of adjusting naturally, so the only option is government intervention to dampen both inflation and recession. This position has been accepted by prominent economists of today (Krugman, 2009; Akerlof and Shiller, 2009).

The Keynesian view of “animal spirits” and a sluggish market response suggests proactive fiscal and monetary policy. In *Atlas Shrugged* the collapse of the market economy was precipitated by regulation and taxation in addition to monetary instability due to the abandonment of the gold standard – the very solutions Keynesian policy prescribes!

There appears to be a growing acceptance that the rapid expansion of the national debt in recent years portends future problems. The current “stimulus package” has created an inflationary overhang that will reduce the value of the dollar. One noted Keynesian has admitted that the policy “...could add to inflationary pressures and a decrease in the dollar’s value particularly if the economy recovers quickly” (Rivlin, 2008). Federal Reserve Chairman Bernanke recently expressed a similar concern (2009). This topic is of prime concern for today’s students, who feel their futures are being mortgaged.

IX. Public Choice

Although Rand may have had no premonition of its development, the “Public Choice” school of economics shares her view of the detrimental effects of governmental intrusion but provides a different rationale. Whereas Rand sees government involvement as immoral, restricting freedom and property rights, the Public Choice School stresses government’s inefficiency and unintended consequences. Public choice advocates contend that governments do not easily fix market failures but often make them worse. This is due to the lack of information and incentives, which government does not possess and which limits its capacity to organize human behavior.

During the 1950s, a generation of economists who were weaned on the macroeconomics of Keynes came on the scene. Many had been employed in the government offices that planned the New Deal and the war effort. The result was the belief in the “omnicompetent scientific managers.” The assumption of scientific management is that the bureaucrat, isolated from politics, can not only determine what the public wants, but what is good for it as well (Mitchell and Simmons, 1994). Hayek (1988) counters these arguments:

On the contrary: the more “complex” an economy, the greater the number of choices and decisions that have to be made – and, therefore, the more blatantly impractical it becomes for this process to be taken over by a central government authority (p.100).

In the novel politicians and bureaucrats think they promote the public interest, but they are led by a political “invisible hand” to do just the opposite. Students show a keen interest in issues regarding why government has grown and why programs, once enacted, rarely, if ever, are discontinued.

X. Conclusions

Rand’s world fifty-two years ago is not today’s world. She had seen the socialist, totalitarian regimes in Russia, Germany, and Italy rise. World War II had defeated Nazi Germany, Imperialist Japan, and Fascist Italy while simultaneously pulling our economy out of the Great Depression. But many intellectuals and labor leaders remained convinced of the superiority of state planning over free markets.

Today communism and socialism have been widely rejected, although there are some exceptions, such as North Korea, Cuba, Venezuela, and most recently Bolivia.

The recent 'Great Recession' can serve as an excellent (albeit costly) laboratory for students to reexamine the role of markets and government. Did free markets lead to excess risk, or was risk the product of government-subsidized loans and implicit government guarantees? Have the financial bailout and stimulus packages been effective, or have they simply delayed an inevitable judgment day? What is the impact of the regulatory state and expanding welfare programs?

The class warfare between the productive and the unproductive of Rand's book has become a platform for today's politicians. The words of Peter Drucker appear true, "...there will be an outbreak of bitterness and contempt for the super corporate chieftains who pay themselves millions. In every major economic downturn in U.S. history, the villains have been the heroes in the preceding boom" (Hiltzik, 2009). John Galt's speech expresses Rand's view:

You fear the man who has a dollar less than you, that dollar is rightfully his, he makes you feel like a moral defrauder. You hate the man who has a dollar more than you, that dollar is rightfully yours, he makes you feel that you are morally defrauded (p.945).

Rand's *Atlas Shrugged* focuses on the role and need for entrepreneurship and how regulation and taxation produce a negative environment for innovation. The limited capacity of government regulation to replace market solutions due to the former's limited knowledge is demonstrated. The implications of governmental deficit financing are a warning. Government programs based on an indefinable concept of "need" appear unlimited and unending.

More importantly, she points to the inevitable conflict between the coercion of governmental action and the freedom embodied in the market. As Rand (1962) stated in another work:

There can be no compromise between freedom and government controls; to accept "just a few controls" is to surrender the principle of inalienable individual rights and to substitute for it the principle of the government's unlimited,

arbitrary power, thus delivering oneself into gradual enslavement (p.79).

Atlas Shrugged is an effective tool to increase student interest in current economic issues. Our class has been among the most highly rated at the university by student evaluations. Although many may be concerned about Rand's "black versus white" characterization, it does motivate students to examine their own preconceptions. Despite its daunting length, students enjoy learning economics by discussing an exciting novel, more so than by consulting "dry" texts. But in using the book, it is imperative that it be a catalyst for inquiry and not a final word on any of these topics.

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