

## THE LIBRARY'S ROLE IN A MARKET-BASED SOCIETY

by Sidney Marks

*"Government is not the solution to our problem.  
Government is the problem."<sup>1</sup>*

—Ronald Reagan

### CLASSICAL ECONOMIC THEORY

Classical economic theory,

**P**olitically speaking, the formerly agreed upon need to support libraries is becoming problematic. We library trustees will increasingly be unsuccessful in finding support for traditional library roles. Businesses or new types of centralized governmental agencies will more efficiently and more effectively deliver many traditional library services. The economic theory that supports and predicts the re-allocation of the library's resources to the private sector is known as "free-market" or "market-based". Politically smart libraries are now redefining their roles in response to market forces to ensure continuing public support.

A logical market-based and politically pragmatic response is to turn away from the role of "popular materials library" and provide library services that are deemed more essential for the survival of patrons, i.e., formal educational support or public work spaces. This response to "free-market" theory and actual market pressure is probably largely correct. However, prudence and caution is the duty of the library trustee. Prior to committing the library to a "free-market" future, it would be appropriate to examine the neoclassical economic theory that forms the philosophical basis of current "market-based" economic and political thought. Undoubtedly, Reagan's second inaugural address captures the zeitgeist: "Government is the problem." However, Reagan's statement and popular interpretation of neoclassical economics oversimplifies the theory. A more accurate understanding of neoclassical economic theory will allow library trustees to support some traditional library roles and also satisfy the demands of the so-called "free-market".

In his book *Trust: The Social Virtues & the Creation of Prosperity*, Francis Fukuyama argues that there is a fundamental error in the popular and simplified understanding of free-market theory.<sup>2</sup> Fukuyama's elaboration of neoclassical economic theory allows for a proper understanding of the public library's formidable economic contribution to a market economy. The value of traditional library services such as "popular materials center" are presently undervalued by planners. Traditional library roles have a greater economic value in our society than might otherwise be recognized. Current planning that directs library resources towards utilitarian, "survival" roles without a proper understanding of neoclassical economic theory will be fundamentally flawed.

like its sister theory, evolution, is unassailable. Adam Smith, the father of classical economic theory, sits triumphant at the side of Charles Darwin. In 1776 Smith wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*. That people respond to rational self interest is the central insight of classical economic theory. The behavior of markets can be predicted using a model of rational self interest. Smith assumed that the goods that people desired would most efficiently be delivered by businesses seeking a profit, "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest."<sup>3</sup> The political and economic events of the late 20th century have swept aside all doubts about the relevance of classical economics. Governments that attempted to replace businesses with bureaucracies, substituting collective egalitarian principals for "capitalistic greed" have failed miserably. Marxists are relegated to the dustbin of history.

### NEOCLASSICAL ECONOMIC THEORY

Adam Smith's twentieth-century disciples, neoclassical economists like Nobel laureate Milton Friedman, build upon Adam Smith's model of rational self-interested human behavior as the driving force in market conditions. Neoclassical economists are very interested in how governments affect the marketplace. Friedman proposed Gammon's Law which states that the more money a bureaucracy spends, the fewer goods or services are proportionately delivered.<sup>4</sup> The theory is that bureaucracies don't have market competition to keep them effective or honest. Gammon's Law provides the theoretical ground for Reagan's declaration, "Government is not the solution to our problem. Government is the problem."

People love a good theory and like to spread it around. For example: Evolution is a strictly biological theory about natural selection, a story of generations of sex competition, life and death, "nature red in tooth and claw." Astronomers love it so much that they fancy that the stars evolve. Lovers love it, so they fancy that their relationships evolve. Astronomers and lovers are nice people but they are abusing the theory. They need to get their own theory.

Neoclassical economics is also a good theory; consequently people like to spread it around a bit thinly. For

example, *The Wall Street Journal* likes the idea of vouchers for school choice.<sup>5</sup> They say that market forces will make the schools better. Maybe. However, it is evident that there are other forces at work to create something besides "better." Racial, cultural, religious, language, and political forces will be working right alongside the market forces. One likely outcome of vouchers would be highly homogenous school populations, perhaps detrimental to the cherished "melting pot" society. *The Journal* improperly extends a theory about economic behavior and applies the theory to behavior not necessarily mediated by economic calculation. Neoclassical economics is not a universal law of all human affairs (assertions of some radio talk show hosts notwithstanding).

### FRANCIS FUKAYAMA'S NEOCLASSICAL THEORY

Francis Fukuyama adds a needed ingredient to neoclassical economic theory. According to Fukuyama just about 80% of human behavior can be explained as market driven: "Not only is the neoclassical economic perspective insufficient to explain political life with its dominant emotions of indignation, pride, and shame, but it is not sufficient to explain many aspects of economic life either."<sup>6</sup> It does not explain altruistic, nationalistic, spiritual, or a host of other behaviors like running into burning houses to save others or dying in battle for your country.

Fukuyama identifies various economic contributions and costs attributable to cultural phenomena outside the marketplace as ordinarily recognized by neoclassical market theorists.<sup>7</sup> These contributions, "social capital," reduce the cost of market transactions. There are numerous examples of these costs and contributions. Excessive litigation caused by unethical lawyers increases the cost of medical care. However, ethical medical doctors, without this excessive litigation, would not order unnecessary tests and would thereby lower the cost of medical care. In this manner, trustworthy behavior would cause goods and services to be cheaper. However, neoclassical market-economics does not explain trustworthy behavior, nor does it value it properly.

Nations and regions can and do have varying degrees of social capital, virtues like trustworthiness. For example, Sicilians are very distrustful of anyone outside their family (including in some cases THE family!) Fukuyama demonstrates that this lack of trust hampers the growth of meaningful economic enterprise and retards the economic development of Sicily.<sup>8</sup> In contrast, American's extraordinary economic growth and vitality is partially attributed to the trust given to non-family managers by owners in the corporate environment. Obviously the "social trust" factor has a great economic value. It is a missing or undervalued ingredient in most conversations about neoclassical economic theory.

Seemingly, the creation and sustenance of "social trust" is important for future prosperity. It is a common

and certainly correct perception that the United States has suffered a serious erosion of trust in the last few decades. Social and economic stratification is a major contributor to a decline in "social trust" that threatens the general prosperity. There is evidence that the current prosperity masks a growing divide and class stratification. Barron's, the premier financial weekly, recognizes the disturbing trend of economic stratification and the danger this may present to our overall prosperity:

*"[there is a] ...growing difference between the wages of male college graduates compared to those on the next lower educational rung. In 1978 the college-educated earned 136% as much as those who completed high school, but by 1996 this figure had vaulted to 176%." Furthermore those male high school graduates were dropping out of the work force at an alarming rate, 86.4% work force participation in 1997 compared to 96.3% participation in 1978."*

The nurturing hotbed of "social trust" is "intermediate social structures" like neighborhoods, churches, unions, clubs and charities." "Intermediate" is here taken in the sense that these organizations stand between the individual or family and the state. Individuals voluntarily work together for a common cause. By working together voluntarily they learn to trust a wider range of individuals and learn the effectiveness of cooperative collective action. Today's decline of "voluntary intermediate social structures" seems evident, especially in the neighborhood and workplace.

### SOCIAL CAPITAL

Traditionally, if perhaps unwittingly, the library has served as an incubator of a special sort of social capital. The enormous accumulated goodwill enjoyed by the library in spite of its tax-collecting status is proof of great accumulation of social capital. Indiana law recognizes the unique place of the library as a goodwill-dependent institution. The Indiana library district is a voluntarily formed tax-collecting entity and the trustees are not paid. So, in theory, library districts can be disbanded when and if they lose that goodwill.

The nature of the social capital incubated at the library may seem elusive. The library certainly cannot claim to have taught honesty or the work ethic. Families, religions, schools, and voluntary organizations (Girl Scouts, Little League, etc.) get first claim (and responsibility) for honesty and work ethic formation. The library has historically offered a safe haven for intellectualism, particularly for adolescents. That's where the ideas were. Often that was the only source of uncensored ideas. Romance, sex, science fiction, fantasy and science fact. That's where great minds and great imaginations had freedom to grow and run wild, often hidden from the guiding hand of the families, religions, schools, and clubs. A childhood romance with their library is a common thread in the lives of many a great American.

According to Elizabeth Martinez:

*"Almost everyone I've met as executive director of ALA has a library story - from celebrities, such as actress-choreographer Debbie Allen, Microsoft's Bill Gates, writer Sandra Cisneros, father of the Internet Vinton Cerf, and President Clinton, to children whose best refuge from their home situation is the library... most of their library stories are full of personal drama, warmth, and emotion - testimonies to this vital community institution."*

*"Most of these stories centered on the place—an old Carnegie building or a modern locale that offered personal escape into the world of books, knowledge, and ideas."<sup>10</sup>*

In announcing the establishment of the Bill Gates Foundation and the investment of \$400 million to libraries, the premier American capitalistic genius, Bill Gates said, "Since I was a kid, libraries have played an important role in my life."<sup>11</sup> His and many other great Americans' love of the library gives a hint of the social capital incubated and its monetary worth to our economy. If even only the tiniest percentage of Microsoft's and other corporations' financial contribution to America is attributed to their founders' early library experience, then American libraries have paid their own way. The library's role as a safe haven for American intellectualism has been very valuable. Gates recognized that value. The Gates Library Foundation's mission states that "Every resident of the United States and Canada will think of the public library as the champion of books and patrons of knowledge, as well as a major access point to the benefits of the digital age." The role, "champion of books and patrons of knowledge," has become more important in the contemporary American anti-intellectual environment.

#### **THE MARKET BASED LIBRARY: UTILITARIAN/ESSENTIAL**

The ordinary responsive market-based model of the library's role in our society ignores what may be one of the library's unique roles in our society: an adolescent intellectual haven. A narrowly defined market-based library will focus on more "salable" concepts and "profitable" market niches. According to Holt, marketing surveys reveal:

*"The roles that citizens most want the public library to play are those of formal education support center, independent learning center, preschoolers' door to learning, community information center, business and personal reference library, and public work place. All these roles were selected ahead of the role of popular materials library, some by huge margins."<sup>12</sup>*

The role of popular materials library is the clear loser in the above market survey. Unfortunately, the popular materials role is the most crucial to the intellectual browser, most particularly the adolescent intellectual browser. Perhaps nurturing that role is to be the most important future economic contribution of library service.

After all, the greatest economic accelerations are made at the margins of the market. Thirty years ago the adolescent computer pioneers were at the margin. Brilliance, imagination, dashing, and recklessness, made great new products and new industries. In those areas Americans have been undisputed leaders. It would be reckless indeed to base a library service plan primarily on the needs of the adolescent intellectual. Yet it would be prudent to nurture young intellectual Americans' continuing romance with the library.

Other possible losers in the utilitarian/essential library mode are the "Friends of the Library." These groups are particularly fragile "intermediate social structures." It is dubious that these groups would respond favorably to a utilitarian changeover. Their loss to the library might seem inconsequential. However, it would be expected that a drying up of their support would be mirrored in a decline in endowments and gifts.

A likely future scenario for a utilitarian or essential library would be a withering of public interest and marginalization of libraries to serving the lower economic class. Neoclassical economists would assume that outcome using a simple "free-market" test. Can the market-place more efficiently provide library services than the present government based system? The neoclassical economic equation is weighted heavily against the future growth and support of library service, because most of the essential services are readily available to the middle class outside the library. Library literature speaks gloomily:

*"Just as the automobile created the privatized journey-to-work for everyday commuters, person-to-person networked computing is creating a growing privatized information-and-entertainment market. The automobile destroyed the streetcar as an intermediary transportation vehicle. Computerized networks also threaten market intermediaries—the movie theater, the video-rental store, the bookstore, the branch bank, and even the scholarly academic journal."<sup>13</sup>*

*"The challenge to intermediary public libraries is explicit. 'Infotainment' corporations want public library users to replace walking or driving to a nearby library branch for inexpensive at-home and in-office access to information and entertainment... Sirbu is typical of these electronic marketers. 'We want to be able to sell a page for a dime,' he noted recently, 'so that it costs as little to get it off the Net as it does to walk to the library and make a copy of a journal.'"<sup>14</sup>*

Holt is right on the money. His article off the WWW at my home from the Northern Light search engine was \$.04 per page from *Library Trends*, a professional library journal. The great attraction of the utilitarian-essential library is the evident taxpayer support. It is easy to justify taxes for a "formal-education-support-center." A much harder sell is the "rich-culture-and-accumulated-wisdom-of-3,000-years-of-ideas-support-center."

## FUKUYAMA'S 20% SOLUTION

Planners (trustees) must justify the long-term support for library services in the light of "free-market" neo-classical economic theory. The common mistake is oversimplification. When properly understood, "free-market" theory will allow for more than a stark utilitarian library role. The current economic thought of Fukuyama gives proper weight to the library's cultural contributions. Those contributions are often undervalued in library planning. Fukuyama estimates that about 80% of human behavior can be explained as market driven. It would seem reasonable for library planners to budget 20% towards the production of "social capital." The Indiana public library has contributed mightily and derives its great accumulated goodwill from its cultural contribution, its social capital. When planning your library's future, think 80% and economic 20% cultural. And if it is a bit greater than 20%, who is harmed?

## ABOUT THE AUTHOR

Sidney Marks resides in Knox, Indiana, with Joan, his beautiful and patient wife of 26 years who is a skilled kindergarten teacher at Knox Elementary, and Elliot his wunderkind of 20 years who is a successful student (Harvard, major in economics). He apologizes to him for any loose interpretation and imperfect understanding of economic theory. Marks is a businessman with various business interests, including retail bargain dry goods (manager, New Toto Stores), radio broadcasting (board of directors, WKVI), and the stock market (may it rise forever). He has been a Trustee of the Starke County Public Library System for three years, appointed by the Knox School Board. He writes: "Trusteeship has been something I have long desired and now relish. David Pauli, our excellent library's director, has been invaluable in helping me make sense of library issues. I apologize to him for my loose interpretation and imperfect understanding of library theory. I would like thank Joan, Elliot, and David for their assistance in writing this piece. All errors in fact and logic are my own."

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