

# Economics in Ayn Rand's *Atlas Shrugged*

EDWARD W. YOUNKINS

**ABSTRACT:** This article provides a summary of economic issues found in *Atlas Shrugged*. It discusses the role of individual initiative, creativity, and productivity in economic progress as illustrated in this novel. It also shows the novel's depiction of the benefits of trade—and the destruction of exchange relationships and production that results from government intervention in the economy. Rand included a great many valuable insights about money in the novel's famous "money speech." In addition, the book analyzes Galt's Gulch as a free market economy. The novel is, in part, a treatise on economics providing a literary treatment of proper economic principles.

*Atlas Shrugged* is an integrated masterpiece of philosophy, politics, and economics. It is an economically literate novel that provides economic enlightenment.<sup>1</sup> Based on an analysis of reality, it is well-informed on economics and can be viewed, in part, as a treatise on political economy providing a literary treatment of proper economic laws, principles, concepts, issues, and themes. This great novel portrays a growing crisis of interventionism and systematic government failure and presents a thorough defense of a totally unregulated market system. In her literary passages, Ayn Rand is able to teach the lessons of market-oriented economics in a far more memorable and engaging manner

than can be found in most books and articles on economics. The goal of this article is to provide a summary of the types of economic issues found in *Atlas Shrugged*.

### The Mind is the Source of Wealth

To begin with, *Atlas Shrugged* masterfully depicts the role of individual initiative and creativity in economic progress. Rand argues in her fictional world, especially through Galt's strike, that the mind is the fundamental source of wealth and profits. It is the thinkers who are the true creators of wealth and who are crucially responsible for prosperity. It is capitalists, industrialists, and entrepreneurs such as Hank Rearden, Dagny Taggart, Ken Danagger, Ellis Wyatt, and Midas Mulligan who reshape the world by being prime movers in the marketplace. These top individuals on the pyramid of ability contribute much more to prosperity than those at lower levels in the hierarchy. It is the competent thinkers and doers who create wealth and promote human economic prosperity through innovation and the creation of new enterprises. It is these self-actuating rational valuers who propel Rand's fictional world and sustain it. Much of *Atlas Shrugged* is a study of the great producers who have the ability to see, to make connections, and to create what has not been seen before. *Atlas Shrugged* makes a convincing case that (1) the mind is at the root of the creation and maintenance of wealth; (2) the passionate producer is the prime mover and the visible hand in markets; and (3) the rational, purposeful, and creative character of the human person is reflected in the act of material production. As John Galt puts it in his speech:

Physical labor as such can extend no further than the range of the moment. The man who does no more than physical labor consumes the material value-equivalent of his own contribution to the process of production, and leaves no further value, neither for himself nor others. But the man who produces an idea in any field of rational endeavor—the man who discovers new knowledge—is the permanent benefactor of humanity. Material products can't be shared, they belong to some ultimate consumer; it is only the value of an idea that can be shared with unlimited numbers of men, making all sharers richer at no one's sacrifice or loss, raising the productive capacity of whatever labor they perform. . . . In proportion to the mental energy he spent, the man who creates a new invention receives but a small percentage of his value in terms of material payment, no matter what fortune he makes, no matter what millions he earns. But the man who works as a janitor in the factory producing that invention, receives an enormous payment in proportion

to the mental effort that his job requires of *him*. And the same is true of all men between, on all levels of ambition and ability. The man at the top of the intellectual pyramid contributes the most to all those below him, but gets nothing except his material payment, receiving no intellectual bonus from others to add to the value of his time. The man at the bottom who, left to himself, would starve in his hopeless ineptitude, contributes nothing to those above him, but receives the bonus of all of their brains. (Rand 1957, 1064–65)

Rand's view is that man has no innate ideas but does have the ability to reason. Man begins uninformed and becomes ever more knowledgeable about the world. Man has no innate knowledge and, therefore, must determine through thought the deeds, actions, and values upon which his life depends. Having free will, man is free to think or not to think. Rationality does not imply omniscience. A person's primary enterprise is to learn the causal connections among objects, actions, and the satisfaction of his needs in order to make rational decisions regarding his well-being. Economic life is constructed around the acquisition of knowledge. In *Atlas Shrugged*, Rand portrays rational, economic man as a being who gradually gains the knowledge and resources necessary to attain his ends.

Rand depicts the entrepreneur as an economizing man who initiates and directs an uncertain causal process. The entrepreneur's activities include the set of functions essential for mobilizing the production process. His most important mission is to visualize and predict future wants and needs, gauge their relative importance, and attain knowledge of potential available means. The successful entrepreneur correctly anticipates consumer preferences and effectively uses reason to meet these preferences. His goal is to know the consumers' wants and needs before the consumers know them. An entrepreneurial insight is checked against reality through its incremental development as knowledge and experience are amassed. New ideas are refined, changed, refocused, improved, and expanded through incremental experimentation and the constant search for improvement. A wealth creator tends to be a person of superior ability who pursues his goals relentlessly in the face of obstacles, opposition, setbacks, and failures. He must persist in the face of adversity, confront the unknown, face challenges, risk and learn from failure, have confidence in his capacity to deal with the world, and take practical, rational steps in the pursuit of his goals.

In *Atlas Shrugged*, Hank Rearden is the prime example of a visionary, competent, independent, action-oriented, passionate, confident, and virtuous entrepreneur. By focusing on reality, he has the vision to see the potential future value of a new metal that will take him ten years to develop. The tenacious and purposeful Rearden is committed to taking the actions necessary to invent this new metal.

Rearden learned a great deal by holding a variety of jobs in a number of companies in steel-related industries ever since he was fourteen years old. Through his intellect and tireless efforts, he ultimately owned and managed ore, coal, limestone, and steel companies. On the evening that he finally pours the first heat of Rearden material, he reflects upon the obstacles, opposition, setbacks, failures, frustrations, and fatigue that he experienced in order to get to this day. He also remembers the moment that he realized all of his purposeful actions were motivated from within.

He saw an evening when he sat slumped across his desk in that office. It was late and his staff had left: so he could lie there alone, unwitnessed. He was tired. It was as if he had run a race against his own body, and all the exhaustion of years, which he had refused to acknowledge, had caught him at once and flattened him against the desk top. He felt nothing, except the desire not to move. He did not have the strength to feel—not even to suffer. He had burned everything there was to burn within him; he had scattered so many sparks to start so many things—and he wondered whether someone could give him now the spark he needed, now when he felt unable ever to rise again. He asked himself who had started him and kept him going. Then he raised his head. Slowly, with the greatest effort of his life, he made his body rise until he was able to sit upright with only one hand pressed to the desk and trembling arm to support him. He never asked that question again. (30–31)

## Economic Justice

In *Atlas Shrugged*, Rand illustrates that justice, a form of adherence to the facts of reality, is the virtue of granting to each man that which he objectively deserves. Justice is shown to be the expression of a man's rationality in his dealings with other men, involving seeking and granting the earned. A trader, a man of justice, earns what he receives and does not give or take the undeserved. Just as he does not work except in exchange for something of economic value, he also does not give his love, friendship, or esteem except in trade for the pleasure he receives from the virtues of individuals he respects. The trader principle is a moral principle that involves the exchange of value for value through voluntary consent.

Rearden defends voluntary exchange, the trader principle, and economic justice when on trial for failing to comply with a government directive (i.e., the

Fair Share Law) ordering him to sell an “equal amount” of Rearden Metal to everyone who wants it. He addresses the court as follows:

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; I do not sacrifice my interests to them nor do they sacrifice theirs to me; we deal as equals by mutual consent to mutual advantage—and I am proud of every penny that I have earned in this manner. I am rich and I am proud of every penny I own. I made my money by my own effort, in free exchange and through the voluntary consent of every man I dealt with—the voluntary consent of those who employed me when I started, the voluntary consent of those who work for me now, the voluntary consent of those who buy my product. (444)

Another character who promotes economic justice is Ragnar Danneskjöld, a philosopher turned pirate who raids only public, government cargo ships in order to return to the productive what is rightly theirs. Robbing these ships prevents the government from redistributing wealth to failing foreign socialist countries. Danneskjöld converts the wealth that he has confiscated into gold and places it into accounts that he has set up for moral, productive, and competent businessmen in proportion to the income taxes that have been extracted from them.

In *Atlas Shrugged*, Rand illustrates how a tax is a compulsory payment by individuals to the government. Taxes are always coercive. Taxes can be used by government to control citizens and to promote “social justice” through the redistribution of wealth. When taxes are used to redistribute wealth and to support social programs, they not only divert resources from other useful purposes but also become a power contest between organized interest groups that pressure Congress to pass laws that are conducive to their perceived self-interest and that allow some people to “gain” at the expense of others.

Toward the end of the novel, the chief looter-politician, Mr. Thompson, offers John Galt the position of Economic Dictator of the nation. He tells Galt that he and the other government officials will obey any order he gives and Galt tells them to begin by abolishing all income taxes. This implies that Rand views income taxes as antiproducer, destructive, unjust, and immoral. This perspective invites a consideration of how the legitimate functions of the state (i.e., defense and protection of life, liberty, and property) would be funded. Where would the money come from to finance the armed forces, police, and law courts?

Is it possible to fund the functions of government without taxation? Even in a minimal state, police, the military, judges, and others have to be paid. One possible solution has been offered by Rand (1964) and elaborated upon by Tibor R. Machan (1982). They explain that a person could pay a user fee when he chooses to use a government service. For example, contract protection is a private good that government supplies and national military defense is a public good that is provided by government. Machan explains that the government could protect contracts and provide for national defense with voluntary payments for the contract services being used. He expands the case by observing that the government has overhead costs, including those needed to provide for the defense of the system of laws itself. This fees-for-services-plus-overhead plan is one possible way to finance government in a free society.

The business heroes in *Atlas Shrugged* are just in their dealings with actual and potential employees, suppliers, customers, business partners, and competitors. They discriminate among all those they deal with based on competitive performance and character. They identify employees for what they accomplish and treat them accordingly. For example, at the end of chapter 1, Dagny wants to promote Owen Kellogg, a promising young engineer. Later, she hires a talented young scientist, Quentin Daniels, to work on reconstructing the motor that she found on the premises of the abandoned factory at the Twentieth Century Motor Company in Wisconsin. For contrast, consider the attempt by Hank's mother to get Hank to hire his worthless brother Philip. When Rearden refuses, his mother tells him that he only thinks of justice, is immoral, and that he never thinks of people and his moral duties. Rearden replies, "I don't know what it is you choose to call morality. No, I don't think of people—except that if I give a job to Philip, I wouldn't be able to face any competent man who needed work and deserved it" (Rand 1957, 209). Later, Hank is seen telling Tony the Wet Nurse, once one of the looters and now a man who shares Rearden's values, that he would hire him gladly and at once but the Unification Board won't allow it.

With respect to customers, we see Rearden choosing to deal with men who share his values such as Ken Danagger, a Pennsylvania coal producer, and Mr. Ward of the Ward Harvester Company, who needs Rearden Metal to keep his doors open. Hank justly takes Mr. Ward's order despite the fact that he is under a deadline to provide the metal needed for the construction of the Rio Norte Line. Our business heroes do not want to deal with "liberal" businessmen who, afraid of honest competition, sell out their initiative, creative powers, and independence for the security of government regulation. We see Dagny becoming enraged at the unjust elimination of her best competitor, Dan Conway's superb Phoenix-Durango Railroad, by a private body, through the National Alliance of Railroad's "Anti-dog-eat-dog Rule," which Dagny's incompetent brother James uses his political connections to get adopted by the alliance. Certainly, Dagny

would like to put Conway out of business, but not this way. She wants to do it by outcompeting him by providing the best railroad service in the area. Dagny goes to see Conway and attempts to get him to fight this unjust rule, but to no avail.

Francisco d'Anconia's justice-oriented actions involve retribution against those who they think can rely on his business judgments. When the looters hear about Francisco's San Sebastián Mines, they invest in them. The San Sebastián Mines are revealed to be worthless and a fraud. Francisco intentionally wanted to ruin investors such as James Taggart, Orren Boyle, and others who attempted to ride on his coattails. They failed to think and to investigate the facts about the mines. As a result, they justly got what they deserved. The San Sebastián Mines and Line are nationalized and then the mines turn out to be worthless.

### Wealth is the Source of Money

According to Horwitz (2007, 226–36), in his “Money Speech,” Francisco explains that money is made possible only by men who produce. Money is a tool of exchange that presumes productive men and the results of their activities. Wealth is thus the source of money. Money is the effect, rather than the cause, of wealth. The money that a person holds symbolizes production that has already occurred and that has been judged as valuable by other people. When an individual takes money as his reward for his work he does so in order to exchange it for products and services made possible by other individuals.

Money is a tool of exchange, which can't exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers, who claim your product by tears, or of the looters, who take it from you by force. Money is made possible only by the men who produce. . . .

When you accept money in payment for your effort, you do so only on the conviction that you will exchange it for the product of the effort of others. (Rand 1957, 410)

Money must be earned through the production of goods and/or services, and production requires the use of reason. This fact is recognized by the heroes of *Atlas Shrugged*. The villains, however, think that money is meaningful no matter how it is obtained. Ignoring the need to produce, the looters try to get money through the use of altruism and coercion. They attempt to evade the fact that life demands production.

*Atlas Shrugged* in general and Francisco's speech in particular emphasize that it is production that initiates demand for other products and services—production

is the source of demand. *Atlas Shrugged* thus portrays and explains Say's Law of Markets, which states that supply constitutes demand. Production is primary and is a precondition to consumption. An individual can demand products and services from others only if he has previously successfully marketed his own products and/or services. People who consume need to produce in order to obtain money from someone who has produced that can be exchanged for other products and services (Salsman 1997, 2011).

In *Atlas Shrugged*, Rand skillfully dramatizes and concretizes the idea that productiveness is a virtue. Readers are shown characters who tend to be productive and successful when they are rational and self-interested. Rand explains that production requires individuals who are rational and self-interested. She illustrates that it is necessary for each person to voluntarily choose to think, plan, and produce if he wants to survive and flourish. The lesson is that it is only to the degree that people are rational and self-interested that they can produce. As Francisco puts it in his money speech, "Those pieces of paper, which should have been gold, are a token of honor—your claim upon the energy of the men who produce. . . . Money is *made*—before it can be looted or mooched—made by the effort of every honest man, each to the extent of his ability. An honest man is one who knows that he can't consume more than he has produced" (Rand 1957, 410–11).

Francisco explains that money is, or should be, an objective standard of value tied to reality in order to act as an integrator of economic values. An objective standard tied to reality requires an objective commodity such as a quantity of gold. Gold is the means of preserving wealth and value. Money prices based on such an objective standard accurately express people's judgments regarding the value of goods and services. Francisco makes clear that this role of money is eroded by inflation. Inflation extinguishes the signaling function of money prices. He says that the debasement of money, through the substitution of paper for gold, is the road to the downfall of society.

Money is the barometer of a society's virtue. . . . Whenever destroyers appear among men, they start by destroying money, for money is men's protection and the base of a moral existence. Destroyers seize gold and leave to its owners a counterfeit pile of paper. This kills all objective standards and delivers men into the arbitrary power of an arbitrary setter of values. Gold was an objective value, an equivalent of wealth produced. Paper is a mortgage on wealth that does not exist, backed by a gun aimed at those who are expected to produce it. Paper is a check drawn by legal looters upon an account which is not theirs: upon the virtue of the victims. Watch for the day when it bounces, marked, "Account overdrawn." (413)

## Planning, Regulation, and Redistribution in a Mixed Economy

Rejecting central social planning, Rand illustrates in *Atlas Shrugged* that there is no way for bureaucrats to make intelligent decisions to deliberately plan or design an economy because it is impossible for them to gain or possess sufficient knowledge. Centrally directed economies are bound to fail because they rely upon the limited knowledge of those who give the orders.

Rand agrees somewhat with such Austrian economists as F. A. Hayek, who argued that the proper role of the state is to create general rules that facilitate mutually beneficial interactions rather than to prescribe specific outcomes. For Rand, there is only one proper role of government and that is to protect individual rights through the use of force, but only in retaliation and only against those who initiate its use. Hayek is concerned with the hubris of reason that distinguishes what he calls “constructivist rationalism.”<sup>2</sup>

*Atlas Shrugged* illustrates that the type and amount of knowledge needed to direct a whole economy are far different from what is required to run a business. Part II of *Atlas Shrugged* portrays in great detail the inefficiencies and economic destruction that stem from centralized economic decision-making. In *Atlas Shrugged*, government officials try to regulate the economy through the Bureau of Economic Planning and Natural Resources, whose name is remindful of the real National Resources Planning Board (NRPB) that was part of the New Deal.

The intentional and rational planning on the part of industrialists like Dagny Taggart and Hank Rearden is in stark contrast to the efforts at comprehensive central planning of the economy by government bureaucrats. According to proponents of social engineering, there exist an elite who far exceed the general population in intellect, morality, and dedication to the “common good.” They believe that their general superiority enables them to use their articulated rationality to function as decision-makers in governmental economic planning. Of course, the knowledge needed by these social architects is unattainable. For example, without market-based prices, decision-making by central planners would be irrational and arbitrary. *Atlas Shrugged* illustrates how economic interventionist policies tend to fail to obtain their objectives, generate unintended and undesirable results, and lead to further government controls. Unintended negative consequences result when social engineers try to direct an economy from the top down. In such an economy, interest groups lobby for special privileges that result in the redistribution of wealth rather than in the creation of wealth. Today's bailout plans and economic stimulus schemes are right out of *Atlas Shrugged*. The more incompetent that businesses are, the more handouts they will be given by politicians in Washington. For example, *Atlas Shrugged*'s Railroad Unification Plan and Steel Unification Plans are eerily similar to the contemporary notion

of “too big to fail,” which has been applied to distressed U.S. auto companies, banks, insurance companies, investment houses, and so on.

*Atlas Shrugged* demonstrates what occurs when government controls the distribution of resources. In a corporate state, crony capitalists (or political capitalists) turn to the government for special privileges in order to obtain protection from open competition. Crony capitalists curry favor with politicians to “defeat” competitors without having to perform better jobs. They gain their results outside the market process by receiving special privileges such as subsidies, grants of monopoly, tax breaks, legal permits, government grants, bailouts, price supports, subsidized loans, trade protections, resource privileges, and so on.

Sciabarra (2007) explains that in *Atlas Shrugged*, Rand examines a collapsing social order and its dysfunctional relations on three distinct analytical levels: Level 1: The Personal; Level 2: The Cultural; and Level 3: the Structural. According to Sciabarra,

A focus on the “structural” (what I’ve called “Level 3”) provides Rand with an opportunity to portray, in frightening detail, the *process* by which a statist economy implodes. As the economic system careens from one disaster to another, as the “men of the mind” withdraw their sanction from a government that regulates, prohibits, and stifles trade, statist politicians attempt to exert more and more control over the machinery of production. To no avail. In the end, Directives are issued, like Number 10-289, which attach workers to their jobs, order businesses to remain open regardless of their level of “profit,” nationalize all patents and copyrights, outlaw invention, and standardize the quantity of production and the quantity of consumer purchasers, thereby freezing wages and prices—and human creativity.

The “pyramid of ability” is supplanted by the “aristocracy of pull.” What F. A. Hayek once called the “road to serfdom” is complete. A predatory neofascist social system, which had survived parasitically, must ultimately be destroyed by its own inner contradictions, incapacitating or driving underground the rational and productive Atlases who carry the world upon their shoulders. (Sciabarra 2007, 30)

Caplan (2007, 215–24) explains further that in *Atlas Shrugged* the reader is able to see how regulations in a mixed economy are actually made. Rather than to advance the so-called public interest, in reality regulations generally further the private financial interests of political insiders at the expense of others. Political interest groups lobby for contradictory measures, and the government

grants favors to those who have the most votes, political pull, or influence at any given moment. A good example in *Atlas Shrugged* is the “deal” through which the Anti-dog-eat-dog Rule and the Equalization of Opportunity Bill result. Rent seekers such as James Taggart and Orren Boyle exploit innovators and prime movers by obtaining favorable governmental legislation and regulations rather than by being innovative and efficient.

The Anti-dog-eat-dog Rule ostensibly imposes a ban on “destructive competition” by granting seniority to the oldest railroad operating in a given region of the country. Although the stated reasons for the rule are to recognize historical priority and to avoid a transportation shortage, its real purpose is to put Dan Conway’s superb Phoenix-Durango Railroad, Taggart Transcontinental’s competitor for the Colorado freight traffic, out of business. The result is the sacrifice of one of the most productive members of the National Alliance of Railroads (Conway) to further Taggart’s less productive company. There is more than a slight resemblance to the “production codes” under the National Industrial Recovery Act.

As Rand puts it,

The Anti-dog-eat-dog Rule was described as a measure of “voluntary self-regulation” intended “the better to enforce” the laws long since passed by the country’s Legislature. The Rule provided that the members of the National Alliance of Railroads were forbidden to engage in practices defined as “destructive competition”; that in regions declared to be restricted, no more than one railroad would be permitted to operate; that in such regions, seniority belonged to the oldest railroad now operating there, and that the newcomers, who had encroached unfairly upon its territory, would suspend operations within nine months after being so ordered; that the Executive Board of the National Alliance of Railroads was empowered to decide, at its sole discretion, which regions were to be restricted. (Rand 1957, 75)

James Taggart uses his political friendship with steel producer Orren Boyle to influence the National Alliance of Railroads to pass the Anti-dog-eat-dog Rule. In turn, Boyle employs Taggart to use his influence in Washington in order to strip Hank Rearden of his ore mines, delivering them in turn to Paul Larkin, who would provide Boyle with the first chance to obtain the ore.

Boyle agrees to provide the votes needed in the National Alliance of Railroads, and in exchange Taggart uses his Washington connections to pass the Equalization of Opportunity Bill, which forbids any one person or corporation from owning more than one type of business concern. This, of course, prevents Rearden from owning the mines that supply him with the resources that

he needs. In order to preserve the steel industry “as a whole” (i.e., to save Boyle’s company), Rearden is stripped of his ore mines, which are then placed in the hands of someone else (i.e., Paul Larkin) who will give Boyle first priority for the ore. Although the stated rationale for the Equalization of Opportunity Bill is that it is unfair to permit one individual to own several business enterprises, the hidden agenda is to allow Boyle’s unproductive Associated Steel to compete with the more efficient Rearden Steel. The result is the sacrifice of Rearden’s productive firm for Boyle’s unproductive company.

A newspaper . . . editorial . . . was entitled “Equalization of Opportunity.” . . . The editorial said that at a time of dwindling production, shrinking markets, and vanishing opportunities to make a living, it was unfair to let one man hoard several business enterprises, while others had none; it was destructive to let a few corner all the resources, leaving others no chance; competition was essential to society, and it was society’s duty to see that no competitor ever rose beyond the range of anybody who wanted to compete with him. The editorial predicted the passage of a bill which had been proposed, a bill forbidding any person or competitor to own more than one business concern. (130)

Throughout *Atlas Shrugged*, both the government and “liberal” or statist politicians say that people must sacrifice for the public welfare. *Atlas Shrugged* illustrates the tragic consequences of following the principle of need rather than the principle of productivity, of adhering to the communist slogan “From each according to his ability, to each according to his need.” For example, the State Science Institute does not want Rearden to put his new metal on the market because of the “social damage” it will cause to steel producers (like Orren Boyle) who can’t compete with him. When Rearden says that he does not worry about other firms, the State Science Institute attempts to bribe and eventually to threaten Rearden to keep his new metal off the market. Rearden understands that true corporate social responsibility is to make profits for the owners while respecting the natural rights of individuals.

Then there is the story of the destruction of the Twentieth Century Motor Company in the wake of the Starnes heirs’ small-scale socialist experiment.<sup>3</sup> Illustrating the consequences of communism in practice, the employees as a group vote to decide the needs of each worker as well as the expected production of each laborer based on an assessment of his ability. The story of this company shows that when earnings are not based on production, incentives diminish, productivity plummets, and bankruptcy results. It thus serves as a precursor for the ultimate fate of an entire country that is heading toward collectivism (Boettke 2005, 451–60; 2007, 179–87; Bostaph 2007, 207–14).

The Twentieth Century Motor Company has constructed its own “society” based on a combination of Marxian and Rawlsian principles of justice that assign priority to the poorest, weakest, and most needy (i.e., “from each according to his ability, to each according to his need”). This system, based on some vague standard of fairness and on the nonrecognition of individual rights, is an inevitable failure.

In addition, there are the Colorado Directives that are intended (at least officially) to help with the national emergency by forcing Colorado to share the suffering. These new mandates included (1) a maximum speed and number of cars for all trains on the John Galt Line, (2) a prohibition on the number of trains to be run in Colorado exceeding the number of trains run in each of the neighboring states, (3) limits on the production of Rearden Metal so it will be no greater than the production of the steel mills of the same capacity, (4) a Fair Share Law that gives every desiring customer an equal amount of Rearden Metal, (5) a prohibition on business firms in the East moving to other states, (6) a five-year moratorium on the payment of railroad bonds, and (7) a 5 percent tax on gross sales made in Colorado in order to fund the administrative costs of the directives. These directives were due to the efforts of economic interest groups who wanted the industrially successful state of Colorado to force its profitable firms to redistribute their earnings. Of course, these laws prompted Ellis Wyatt to quit, put other firms out of business and wiped out the Rio Norte Line. Ultimately, these destructive directives hastened the retirement and disappearance of many Colorado industrialists who had created enormously productive enterprises and who had been forced to carry less competent businessmen along with them. Ellis Wyatt and other Colorado industrialists refuse to work under imposed conditions that would result in the destruction of any firms that attempted to abide by them.

We also encounter the Railroad Unification Plan and the Steel Unification Plan. The Railroad Unification Plan was James Taggart’s desperate scheme to keep Taggart Transcontinental from going out of business by feeding off its competition. The plan provides that the total profits of all railroad companies be allocated according to the number of miles of track each owns and maintains instead of according to the amount of service that each supplies. Then there is the Steel Unification Plan, which would bankrupt Rearden. The Steel Unification Plan is patterned after the Railroad Unification Plan. All of the steel companies’ earnings are to be rewarded according to the number of furnaces each owns. Because Boyle has a great many idle furnaces he would be paid for almost double his actual output. In turn, Rearden would be paid for less than half of his actual output. Both the Railroad Unification Plan and the Steel Unification Plan require companies to produce “according to each one’s ability” with the profits to be allocated “according to each firm’s need.”

Directive 10-289 provides the knockout punch to economic freedom in *Atlas Shrugged* (Boettke 2005; 2007; Caplan 2007; Bostaph 2007). Its purported purpose is to stop the country's economic decline by freezing the economy in its present state. The directive employs comprehensive central government planning to freeze everything at the status quo. It actually allows top government officials and politically connected businessmen to retain power and enhance their own control of the economy. This directive mandates that all workers remain at their current jobs, that no business close, and that all patents and copyrights be "voluntarily" turned over to the government. It also forbids the introduction of new products and innovations and requires firms to annually produce a quantity of goods identical to the quantity produced during the preceding year. In addition, the directive freezes all wages, prices, and profits, and requires every person to spend the same amount of money as he did in the preceding year. It prevents businesses from adjusting expenses and making other strategic and tactical decisions. Of course, given that appeals for exceptions can be made to the Unification Board, such government control inevitably leads to the buying and selling of economic favors.

### **Galt's Gulch: Model of a Free Society**

Galt's Gulch (also known as Mulligan's Valley and Atlantis) sharply contrasts with Directive 10-289 and with the mode of operation of the Twentieth Century Motor Company. Atlantis is a microcosm or model of a free society enshrouded by the collapsing interventionist one. This laissez-faire capitalist society is located in the heart of the United States. This paradigm of a free society consists of a voluntary association of men held together by nothing except every man's self-interest. Here productive men who have gone on strike are free to produce and trade as long as they observe the valley's customs. In this secret free society each individual is unencumbered in the pursuit of his own flourishing and happiness. In Galt's Gulch justice is based on the recognition of individual rights and individual achievement.<sup>4</sup>

Bostaph (2007, 2011) has commented on the ambiguity of Ayn Rand's theory of price. In a conversation that takes place in Galt's Gulch between Ellis Wyatt and Dagny Taggart, Wyatt states that he reduces the price he charges for oil as he improves his process of extracting oil from shale, and decreases the effort he expends in extracting it (Rand 1957, 722). Bostaph observes that in this scene Rand may have been assuming a real-cost theory of pricing. He goes on to say that one could also assume that the amount of production would correspondingly increase thereby making a marginal unit less valuable to the producer.

Bostaph (2011, 39) also notes that bits and pieces of economic ideas can be found scattered throughout Galt's speech. For example,

Rand identifies the idea that spending creates wealth as a reversal of the law of casualty (Rand 1957, 1038); the view of a factory as a natural resource as the willful denial of human agency (1043); the view of the production of goods as an anonymous and automatic process not connected to that of distribution as a denial of both causality and property rights; the view that industrial progress is instinctual as obscenely stupid (1044); and, the assertion that those who create wealth through the use of their minds are the exploiters of those who do not, and that the former should be enslaved for the benefit of the latter, as a vestige of the morality of barbarism. (1049)

## Conclusion

As we have seen, *Atlas Shrugged* contains a great deal of economic content. In it, Rand provides a literary description of economic institutions and conditions within a particular context. She is able to explain the proper principles and workings of a free market system. Rand skillfully illustrates the cause and effect relationships of events in a society's economy. As a lesson in economics,<sup>5</sup> *Atlas Shrugged* illustrates the necessity to analyze the immediate and long-term, direct and indirect, and intended and unintended consequences of a governmental action or policy. Rand explains that the mind is the source of well-being and that the mind must be free to invent and produce new products and services. *Atlas Shrugged* illustrates that government intervention discourages innovation and risk-taking and obstructs the process of wealth creation. It also demonstrates that wealth is not causeless and that by removing the cause (i.e., the mind) the strike removes the effect (i.e., wealth). Capitalism is thus shown to be the only moral economic system because it protects a man's mind, his primary means of survival and flourishing.

## NOTES

This article is an expanded version of a talk delivered on 6 October 2007, in Washington, D.C., as part of a celebration of *Atlas Shrugged's* fiftieth anniversary sponsored by the Atlas Society. I would like to acknowledge the helpful comments, observations, and suggestions of Walter Block, Samuel Bostaph, David Brat, Bryan Caplan, Steven Horwitz, Richard C. B. Johnsson, Brian Simpson, and Russell Sobel.

1. Another economically literate novel is Henry Hazlitt's *Time Will Run Back* ([1966] 2007), originally published as *The Great Idea* in 1951.
2. On the parallels between Hayek's and Rand's critique of rationalism (particularly of the "constructivist" sort), see Sciabarra [1995] 2013, 208–14.
3. A thorough discussion of the details and consequences of the Starnes Plan at the Twentieth Century Motor Company is provided in *Atlas Shrugged* when Dagny encounters Jeff Allen, a former employee of the company when the plan was introduced (Rand 1957, 660–72).
4. For detailed analyses of the operation of Galt's Gulch, see Sechrest 2007 and Bostaph 2007; 2011.
5. Several recent articles have discussed how *Atlas Shrugged* can successfully be integrated into a college economics course. See Boettke 2005; Kent and Hamilton 2011; and Chamlee-Wright 2011.

## REFERENCES

- Boettke, Peter J. 2005. Teaching economics through Ayn Rand: How the economy is like a novel and how the novel can teach us about economics. *The Journal of Ayn Rand Studies* 6, no. 2 (Spring): 445–65.
- . 2007. The economics of *Atlas Shrugged*. In Younkens 2007, 179–87.
- Bostaph, Sam. 2007. Ayn Rand's Atlantis as a free market economy. In Younkens 2007, 207–14.
- . 2011. Ayn Rand's economic thought. *The Journal of Ayn Rand Studies* 11, no. 1 (July): 19–44.
- Caplan, Bryan. 2007. *Atlas Shrugged* and public choice: The obvious parallels. In Younkens 2007, 215–24.
- Chamlee-Wright, Emily. 2011. Cultivating the economic imagination with *Atlas Shrugged*. *Journal of Economics and Financial Education* 10, no. 2 (Fall): 41–53.
- Hazlitt, Henry. [1966] 2007. *Time Will Run Back*. Auburn, Alabama: Ludwig von Mises Institute.
- Horwitz, Steven. 2007. Francisco d'Anconia on money: A socio-economic analysis. In Younkens 2007, 225–36.
- Kent, Calvin A. and Paul Hamilton. 2011. Inclusion of *Atlas Shrugged* in economics classes. *The Journal of Private Enterprise* 26, no. 2: 143–59.
- Machan, Tibor R. 1982. Dissolving the problem of public goods: Financing government without coercive means. In *The Libertarian Reader*. Edited by Tibor R. Machan. Lanham, Maryland: Rowman & Littlefield, 201–9.
- Rand, Ayn. 1957. *Atlas Shrugged*. New York: New American Library.
- . 1964. Government financing in a free society. In *The Virtue of Selfishness: A New Concept of Egoism*, by Ayn Rand with additional articles by Nathaniel Branden. New York: New American Library, 135–41.
- Salsman, Richard. 1997. *The Invisible Hand Comes to Life: Economics in "Atlas Shrugged."* Two audio lectures. New Milford, Connecticut: Second Renaissance Books.
- . 2011. Economics in *Atlas Shrugged*. *The Objective Standard* 6, no. 1 (Spring): 49–88.

- Sciabarra, Chris Matthew. [1995] 2013. *Ayn Rand: The Russian Radical*. 2nd edition. University Park: Pennsylvania State University Press.
- . 2007. *Atlas Shrugged*: Manifesto for a new radicalism. In Younkens 2007, 23–32.
- Sechrest, Larry J. 2007. *Atlas*, Ayn, and anarchy: A is A is A. In Younkens 2007, 189–96.
- Younkens, Edward W., ed. 2007. *Ayn Rand's "Atlas Shrugged": A Philosophical and Literary Companion*. Aldershot, England: Ashgate.