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# THE FREEMAN

IDEAS ON LIBERTY

VOLUME 61, NO 7

SEPTEMBER 2011

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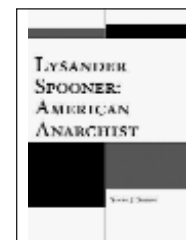


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# THE FREEMAN

## Published by

The Foundation for Economic Education  
Irvington-on-Hudson, NY 10533  
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[www.fee.org](http://www.fee.org)

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The Foundation for Economic Education (FEE) is a nonpolitical, nonprofit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

*The Freeman* is published monthly, except for combined January-February and July-August issues. Views expressed by the authors do not necessarily reflect those of FEE's officers and trustees. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail [mnolan@fee.org](mailto:mnolan@fee.org).

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## Affording It All

People who don't understand—or who don't care about—economics say funny things. Well, they would be funny if they weren't so damaging when translated into government policy. Take Lawrence O'Donnell, host of MSNBC's *The Last Word with Lawrence O'Donnell*. He must be a smart guy. He's articulate. He's been an adviser to a senator of some intelligence (the late Daniel Patrick Moynihan) and a staff director for two Senate committees. He was a producer and writer for the television drama *The West Wing* and has been associated with other television programs.

So how could O'Donnell permit himself to say this in a promo that ran on his network: "We can afford anything in this country. It's just a matter of deciding what our priorities are. . . . There isn't anything we can't afford, if we prioritize."

This clearly is nonsense. He seems to be saying that if we prioritize—ignore who "we" are for the moment—we have the resources to satisfy everyone's wants. He also might mean that if we prioritize, there isn't any *particular* thing we can't afford. I doubt that's what he has in mind because it would be far less sweeping a statement. Even so, it would still be nonsense.

We live in a world of scarcity. Individually and collectively we want more than available resources can yield. That will remain true even as the supply of resources expands. That's how people are. Ends exceed means. Demand exceeds supply. That's why we economize and always will. That is why human action is choosing. That is why we face tradeoffs all the time. Indeed it is why the discipline of economics exists.

And it is why we prioritize, that is: "arrange or deal with in order of importance." Since resources and time are limited, we have to rank our ends so 1) we don't expend resources achieving a less important end at the expense of more important ends, and 2) we don't achieve a less urgent end at the expense of a more urgent end.

If we literally could afford everything in terms of resources and time, we would have no need to prioritize. But prioritizing doesn't prevent us from running out of resources.

I assume that Lawrence O'Donnell knows all this. To be fair, tucked in between the two sentences I quoted is this: "If we want [fair and decent health care] we can afford that. It may mean that *we have to cut back on something else somewhere else*. But we can do it." But then he immediately forgot he had said this.

I'd guess it was just a demagogic strike at those who think we can't afford a government that spends close to \$4 trillion a year. He apparently wants to say that anyone who believes this is just a stingy bastard, especially when it comes to the poor, the elderly, and the sick.

As a subscriber to the principle of charity, I tried hard to make sense of O'Donnell's statement. Maybe he really means we can afford everything *he* thinks is worthwhile. I doubt that's true, but it takes us into another area of discussion.

Who is "we"? Of course O'Donnell means the taxpayers. It's quite remarkable how some people sit around casually spending other people's money. You'd think our incomes were public property. By that logic the government budget isn't \$3.8 trillion. It's something over \$14 trillion—the entire GDP. The 73 percent of our income *not taxed* is actually a form of government spending because some government could have spent the money some other way but chose not to.

People who think like that (or whose premises logically commit them to think like that) no doubt assure themselves that it's all for the good of the country. But they can't escape the fact that their schemes merely empower an elite whose real priority is keeping the corporate state intact. The benefits handed to people outside the governing clique are intended at best to consolidate and maintain power.

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We take the conveniences of modern life for granted, so it is worthwhile reminding ourselves what they are and what makes them possible. Warren Gibson has a go at it.

One grievance of the American revolutionaries was that King George III "erected a multitude of New

Offices, and sent hither swarms of Officers to harass our people and eat out their substance." Paul Schwenesen offers two vignettes to illustrate the continuing relevance of the complaint.

For many years most Africans have suffered oppression and poverty under centrally run economies. But deeper in Africa's history—before Western colonization and modern independence—one finds decentralization, markets, and trade. George Ayittey has the story of Africa's original liberalism.

This month marks the 130th anniversary of the birth of Ludwig von Mises, the great Austrian economist, political philosopher, and prophet. We commemorate this occasion with a selection of his *Freeman* writings.

If the Progressive Era stood for anything, it was the proposition that experts know best about everything. What is unappreciated is how widely this principle was applied. Kevin Carson has the details.

To hear most politicians and pundits tell it, the way to solve a problem is to manipulate its indicators. Why worry about the real cause? Richard Fulmer tells why.

Freeing the market will take more than just scraping off a thin layer of government intervention. It will require going down to the roots of government economic distortion and exploitation. Charles Johnson elaborates.

Provocative insights pour from our columnists' word processors. Lawrence Reed says government should not subsidize the arts. Donald Boudreaux discusses the causes of the Industrial Revolution. Burton Folsom assesses competing strategies for ending the Great Depression. John Stossel indicts occupational licensing. Walter Williams examines the concepts *monopoly* and *collusion*. And David Boaz, confronting the claim that drug decriminalization has failed, responds, "It Just Ain't So!"

Books on the ruling class, neoconservatism, Lysander Spooner, and limited government have kept our reviewers occupied.

—Sheldon Richman  
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# What's Wrong with Government Funding of the Arts

BY LAWRENCE W. REED



People who oppose Soviet-style collective farms, government subsidies to agriculture, or public ownership of grocery stores because they want the provision of food to be a private matter in the marketplace are generally not dismissed as uncivilized or uncaring. Hardly anyone would claim that one who holds such views is opposed to breakfast, lunch, and dinner. But people who oppose government funding of the arts are frequently accused of being heartless or uncultured. What follows is an adaptation of my letter to a noted arts administrator that articulates a case for art, like food, that relies on private, voluntary provision. The person to whom I wrote shall remain nameless to protect the innocent.

Dear Sir: Thanks for sending me your thoughts lamenting the idea of cuts in arts funding by state and federal governments. In my mind, however, the fact that the arts are wildly buffeted by political winds is actually a powerful case *against* government funding. I've always believed that art is too important to depend on politicians, too critical to be undermined by politicization. Furthermore, expecting government to pay the bill for it is a cop-out, a serious erosion of personal responsibility and respect for private property.

## What Multiplier?

Those "studies" that purport to show X return on Y amount of government investment in the arts are generally a laughingstock among economists. The numbers are often cooked and are almost never put alongside competing uses of public money for comparison. Moreover, a purely dollars-and-cents return—even if accurate—is a small part of the total picture.

The fact is, virtually every interest group with a claim on the treasury argues that spending for its proj-

ects produces some magical "multiplier" effect. Routing other people's money through the government alchemy machine is supposed to somehow magnify national wealth and income, while leaving it in the pockets of those who earned it is somehow a drag. Assuming for a moment that such preposterous claims are correct, wouldn't it make sense from a purely material perspective to calculate the "average" multiplier and then route all income through the government? Don't they do something like that in Cuba and North Korea? What happened to the multiplier in those places? It looks to me that somewhere along the way it became a divisor.

What if, for instance, "public investment" simply displaces a certain amount of private investment? (Arts subsidy advocates never raise this issue, but I know that

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on politicians.

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I personally am far less likely to make a charitable contribution to something I know is on the dole than to something I know rests on the good hearts of willing givers). What if "public investment" brings with it some baggage like political manipulation that over time erodes the integrity of the recipient institutions?

How does that fit into the equation? What if I, as a taxpayer who earned the dollars in the first place, could keep what the government would otherwise spend on the arts and invest it in my kid's college education and end up getting twice the return on my money that the government would ever get on the arts?

If simply getting a good return qualifies an activity for public investment and government involvement, then I can think of hundreds of companies and industries that government "should" have spent tax money on—from silicon chips to Berkshire Hathaway. The Constitution's framers could have dispensed with all

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that rigmarole about rights of citizens and duties of government and stopped with a preamble that said only, "We the People, in order to get a high return on our tax money, establish this government to do whatever anybody can show will fetch a hefty payback."

Sometimes those of us who put faith in such things as the individual, private property, and the marketplace are accused of focusing solely on dollars and cents. But actually, it's those on the other side who are more guilty of this. The arts funding issue is a case in point. Advocates of government funding focus on dollars—more of them, *always* more of them—and no matter how much government funding of the arts we have, it's never enough.

### Meaningful Money

Those of us who wish to nurture the arts privately stress other, far more important values. I believe, for example, that money which comes voluntarily from the heart is much more meaningful than money that comes at gunpoint (which is ultimately what taxes are all about). You've won so much more when you convince people to do the right thing, or support the right causes, because they *want* to instead of because they *have* to. For that reason I don't believe in shotgun marriages either.

I can think of an endless list of desirable, enriching things, very few of which carry a tag that says, "Must be provided by taxes and politicians." A rich culture consists, as you know, of so many good things that have nothing to do with government, and thank God they don't. We should seek to nurture those things privately and voluntarily because "private" and "voluntary" are key indicators that people believe in them.

The surest way I know to sap the vitality of almost any worthwhile endeavor is to send a message that says,

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You've won so much more when you convince people to do the right thing, or support the right causes, because they *want* to, not because they *have* to.

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"You can slack off; the government will now do it." That sort of flight from responsibility, frankly, is at the source of many societal ills today: Many people don't take care of their parents in their old age because a federal program will do it. Most parents these days shirk their duties to educate their kids because government schools are supposed to do that (even though many of them do a miserable and expensive job of it).

### What's Important

I know that art is just about everything to some people, especially those whose living derives from it. But as adults we have to resist the temptation to think that what we are individually doing is somehow the greatest thing since sliced bread and that therefore it must receive more than what people willingly give it.

I think what my church does is important, but I don't want government giving it money. I think what we do at FEE is important, but we'd go out of business before we'd take a nickel of somebody's money against his will. I might even like certain nongovernment-funded art forms more than the ones that are politically well connected enough to get a grant, but I don't want to corrupt them with a government check. As children we want what we want and we want it now, and we don't care where it comes from or even if somebody has to be robbed for us to get it. But as discerning adults who put a higher premium on mutual respect and building a culture that rests on creativity and persuasion over coercion, we should have different standards.

Lots of things are important in life. Spare us the sanctimonious and self-serving nonsense about taking other people's money for the art you happen to think they should pay for.



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# Drug Decriminalization Has Failed? It Just Ain't So!

BY DAVID BOAZ

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**M**ichael Gerson, former speechwriter for President George W. Bush and now a columnist for the *Washington Post*, has denounced libertarianism as “morally empty,” “anti-government,” “a scandal,” “an idealism that strangles mercy,” guilty of “selfishness,” “rigid ideology,” and “rigorous ideological coldness.” (He’s starting to repeat himself.)

In his May 9 column, “Ron Paul’s Land of Second-Rate Values” ([tinyurl.com/439znq7](http://tinyurl.com/439znq7)), he went after Rep. Paul for his endorsement of drug legalization in the Republican presidential debate. “Dotty uncle,” he fumed, alleging that Paul has “contempt for the vulnerable and suffering.” Paul holds “second-rate values,” he added.

What did Paul do to set him off? He said that adult Americans ought to have the freedom to make their own decisions about their personal lives—from how they worship, to what they eat and drink, to what drugs they use. And he mocked the paternalist mindset: “How many people here would use heroin if it were legal? I bet nobody would say, ‘Oh yeah, I need the government to take care of me. I don’t want to use heroin, so I need these laws.’”

Gerson accused Paul of mocking not paternalists but addicts: “Paul is not content to condemn a portion of his fellow citizens to self-destruction; he must mock them in their decline.” Gerson wants to treat them with compassion. But let’s be clear: He thinks the compassionate way to treat suffering people is to put them in jail. And in the California case *Brown v. Plata*, the Supreme Court just reminded us what it means to hold people in prison:

California’s prisons are designed to house a population just under 80,000, but . . . the population was almost double that. The State’s prisons had operated at around 200% of design capacity for at least 11 years. Prisoners are crammed into spaces neither designed nor intended to house inmates. As many as 200 prisoners may live in a gymnasium, monitored by as few as two or three correctional officers. As many as 54 prisoners may share a single toilet. Because of a shortage of treatment beds, suicidal inmates may be held for prolonged periods in telephone-booth-sized cages without toilets.

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Gerson knows this. His May 27 column quoted this very passage and concluded, “[I]t is absurd and outrageous to treat [prisoners] like animals while hoping they return to us as responsible citizens.”

Gerson contrasted the “arrogance” of Paul’s libertarian approach to the approach of “a Republican presidential candidate [who] visited a rural drug treatment center outside Des Moines. Moved by the stories of recovering young addicts, Texas Gov. George W. Bush talked of his own struggles with alcohol. ‘I’m on a walk. And it’s a never-ending walk as far as I’m concerned. . . . I want you to know that your life’s walk is shared by a lot of other people, even some who wear suits.’”

Gerson seems to have missed the point of his anecdote. Neither Bush nor the teenagers in a Christian

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rehab center were sent to jail. They overcame their substance problems through faith and personal responsibility. But Gerson and Bush support the drug laws under which more than 1.5 million people a year are arrested and some 500,000 people are currently in jail.

Our last three presidents have all acknowledged they used illegal drugs in their youth. Yet they don't seem to think—nor does Gerson suggest—that their lives would have been made better by arrest, conviction, and incarceration. If libertarianism is a second-rate value, where does hypocrisy rank?

Gerson seems to have a fantastical view of our world today. He writes, “[D]rug legalization fails. The de facto decriminalization of drugs in some neighborhoods—say, in Washington, D.C.—has encouraged widespread addiction.”

This is mind-boggling. What has failed in Washington, D.C., is drug prohibition. As Mike Riggs of *Reason* magazine wrote, “I want to know where in D.C. one can get away with slinging or using in front of a cop. The 2,874 people arrested by the MPD for narcotics violations between Jan. 1 and April 9 of this year would probably like to know, too.”

Michelle Alexander, author of *The New Jim Crow*, writes, “Crime rates have fluctuated over the past few decades—and currently are at historical lows—but imprisonment rates have soared. Quintupled. And the vast majority of that increase is due to the War on Drugs, a war waged almost exclusively in poor communities of color.” Michael Gerson should ask Professor Alexander for a tour of these neighborhoods where he thinks drugs are de facto decriminalized.

In a recent Cato Institute report, Jeffrey Miron of Harvard University estimated that governments could save \$41.3 billion a year if they decriminalized drugs, an indication of the resources we're putting into police, prosecutions, and prisons to enforce the war on drugs.

What Gerson correctly observes is communities wracked by crime, corruption, social breakdown, and widespread drug use. But that is a result of the failure of prohibition, not decriminalization. This is an old story. The murder rate rose with the start of alcohol Prohibi-

tion, remained high during Prohibition, and then declined for 11 consecutive years when Prohibition ended. And corruption of law enforcement became notorious.

Drug prohibition itself creates high levels of crime. Addicts commit crimes to pay for a habit that would be easily affordable if it were legal. Police sources have estimated that as much as half the property crime in some major cities is committed by drug users. More dramatically, because drugs are illegal, participants in the drug trade cannot go to court to settle disputes, whether between buyer and seller or between rival sellers. When black-market contracts are breached, the result is often some form of violent sanction.

When Gerson writes that “responsible, self-governing citizens . . . are cultivated in institutions—families, religious communities and decent, orderly neighborhoods,” he should reflect on what happens to poor communities

under prohibition. Drug prohibition has created a criminal subculture in our inner cities. The immense profits to be had from a black-market business make drug dealing the most lucrative endeavor for many people, especially those who care least about getting on the wrong side of the law. Drug dealers become the most visibly successful

people in inner-city communities, the ones with money and clothes and cars. Social order is turned upside down when the most successful people in a community are criminals. The drug war makes peace and prosperity virtually impossible in inner cities.

There is a place where drugs have been decriminalized, not just de facto but in law. Maybe Gerson should have cited it instead of Washington, D.C. Trouble is, it doesn't make his point. Ten years ago Portugal decriminalized all drugs. Recently Glenn Greenwald studied the Portuguese experience in a study for the Cato Institute ([tinyurl.com/dhkzm4](http://tinyurl.com/dhkzm4)). He reported, “Portugal, whose drug problems were among the worst in Europe, now has the lowest usage rate for marijuana and one of the lowest for cocaine. Drug-related pathologies, including HIV transmission, hepatitis transmission and drug-related deaths, have declined significantly.”

Drug decriminalization fails? It just ain't so.



If libertarianism is a second-rate value, where does hypocrisy rank?

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# Sardines at Midnight

BY WARREN C. GIBSON

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Sardines at midnight? If the mood should strike me, I can zip down to the local Safeway store here in Belmont, California, which is open 24/7, and be back with a can in 20 minutes. My biggest problem would be choosing from among Thai, Canadian, Polish, or Norwegian sardines packed in water, olive oil, tomato-basil, or soybean oil.

So what? It's darn near a miracle, that's what, and would seem so to most inhabitants of today's world and everyone in yesterday's world. Leonard Read's phrase "The Miracle of the Market" was only a slight exaggeration. I won't attempt to describe how markets miraculously motivate and coordinate the actions of the thousands of people who cooperate in providing me with sardines. Nobody can do that better than Leonard Read did in his classic "I, Pencil" ([tinyurl.com/7mznse](http://tinyurl.com/7mznse)). If for some reason you haven't read it, stop now and do so.

The increased quantity and quality of the conveniences available to us are really amazing. We should stop to think about them from time to time, paying special attention to the incentives that brought them about.

I have vague memories of the Fisher Brothers grocery store where my mother took me around 1950. The place was tiny and the selection limited. Looking back, I wonder about its cleanliness: The owners kept sawdust on the floor to soak up spills. Later they built a super-

market that was much larger but still only a pale precursor of today's Safeway. A mix of union coercion, government regulation, and perhaps just plain custom kept all supermarkets closed after six p.m. Monday through Saturday and all day Sunday. A working woman had to scramble to get her shopping done before closing time or join the mob on Saturday.

Our local Safeway was remodeled a few years back. Over the perfunctory objections of the union, management installed scanners. Five checkout lanes replaced eight, and waiting time was drastically reduced. Now the clerks seem to enjoy swiping the goods over the scanner. Some do it with the grace and aplomb of a ballerina. Sometimes they finish faster than I can fumble for my credit card and swipe it through the machine.

Credit cards and the machines that accept them are themselves pretty amazing. There were no credit cards in

the days of the Fisher Brothers, though they might have extended their own credit to a steady customer. The machine at Safeway validates my credit card and completes the transaction within seconds. How does it do that? More important, how does it do it economically, given the store's razor-thin profit margins?



Even sardines are available with near-miraculous convenience and selection.

MMChicago [flickr]

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As part of the remodel, they laid faux wooden floors and installed special lighting for ambiance—a term that would have baffled the Fisher Brothers. They added a deli, an organic section, and a sushi chef. Those things fascinate me even though I don't care to partake of them.

Then there's the "Safeway Club" card. Most retailers offer such things these days. The bargains I get from using the card and the customized coupons are worth the minor sacrifice of privacy. So my eating habits are in a database somewhere. I care not.

As mentioned, supermarkets operate on notoriously low profit margins. From each dollar of revenue, Safeway brought 1.4 cents down to the bottom line in 2010. If someone pilfers a can of sardines, there goes the profit on about 70 more cans. And then there's corporate income tax. Safeway's rate was 33 percent for 2010. Of course, corporations don't really pay taxes; people do. That burden falls on shareholders, employees, and customers, most of whom don't realize this.

Competition is fierce. Lunardi's on the opposite corner is a comparable supermarket that gives Safeway a vigorous run for its money. A few miles away, Trader Joe's and Whole Foods are bustling with high-end customers. There is no Walmart nearby, but Costco and Kmart are but a short drive away. So Safeway struggles to position itself between low-end and high-end competitors.

Shrinkage is a problem for all retailers. This term refers to pilfering by customers or employees, and again the slim profit margins can easily get pilfered away. Safeway's shrink rate is a company secret, as are the countermeasures it deploys, but it does report progress on that front.

How well have the owners of Safeway been compensated for risking their capital? Just so-so. Earnings per share dropped from \$2.21 in 2008 to \$1.55 in 2010 but are now recovering. Notwithstanding declining earnings, they have raised their dividend each year but it is still a rather modest 2.3 percent. Investment advisory service Value Line gives Safeway high marks for both timeliness and safety, but I'm not tempted.

Do I love Safeway? Not really. I'm very pleased about my relationship with it, but I reserve my gratitude for the fact that governments haven't yet ruined it. It's not for lack of trying—our local planning commission and planning staff are constantly harassing it with petty regulations and subsidized competition in the form of a weekly farmers' market. (A tale of my experiences as a libertarian planning commissioner can be found at [tinyurl.com/3z4pnf6](http://tinyurl.com/3z4pnf6) [pdf].)

Of course Safeway tries to entice me with marketing ploys. High-margin items are prominently displayed. You run a gauntlet of these displays to reach the pharmacy in the back. There are trashy magazines to look at in the checkout line and candy bars up for mindless grabbing. None of this bothers me. I'm all grown up and can take their enticements or leave them.

Am I loyal to Safeway? Not entirely. When I want a sandwich I cross the street to Lorenzo's, a tiny family-owned shop. They're a friendly and hard-working bunch, under the same ownership for 26 years, and they always seem to be busy. They have many loyal customers here in Belmont, and provide good job experience for the high school kids they hire, some of them sons and daughters of previous employees. And yes, they make good sandwiches. Watching

them hustle is part of the fun of going there. So is the look in their eyes when they speak of the satisfaction they get from their work.

Sometimes I go to Kmart for bargains despite the distance. The clerks seem not terribly bright, and the clientele is mainly lower-class, but the savings on cat food and paper towels make the trip worthwhile. Sears and Kmart merged a few years ago, and the combined firm has been struggling ever since.

The stock fetches a hefty 38 times earnings and pays no dividend although its debt burden is low. Seems like a tempting short sale.

Besides the goodies available to me, I'm pleased about the influence I exert every time I spend a dollar in a competitive market. Ludwig von Mises called this "consumer sovereignty." Actually this was a rare

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Besides the goodies available to me, I'm pleased about the influence I exert every time I spend a dollar in a competitive market.

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instance where Mises was somewhat off-base. As sellers of labor services, we naturally want high wages and salaries, but we are also highly motivated by nonmonetary considerations like working conditions. Dave and Marta, owners of Lorenzo's, might well pass up better-paying jobs with Safeway or Walmart because they like their independence and their customer relationships. Recognizing that producers may pass up monetary profit opportunities in favor of other values, Murray Rothbard rejected Mises's phrase in favor of "individual sovereignty." Consumers and producers jointly determine what is produced—consumers don't hold all the cards. Still, as consumers we exercise considerable sway over what gets produced and in what quantity and quality, leaving aside government intervention.

Speaking of Walmart, it has been trying to penetrate the San Francisco Peninsula for years but has advanced no farther than Mountain View, 35 miles south of San Francisco. The city of Belmont, 20 miles south, owns a piece of land that seems like a dandy Walmart site, but the political elite in our town wouldn't allow it. A lot of Walmart's customers would be lower-income people; around here, that means they're likely to be minorities, particularly Hispanic people, so there's an element of racism here.

### A (Dollar) Tree Grows

Walmart has been held at bay, but Dollar Tree slipped past the barricades. This national chain acquired a moribund shoe store in our town and was able to convert it to its own brand without any special permits. Oh my, the howling! We're Belmont! We want boutiques and artsy-craftsy shops! But Dollar Tree has done a land-office business since day one. It's not uncommon to see a Mercedes or a Lexus in the lot, driven perhaps by some of the same howlers.

Its operation is pretty amazing. Everything is priced at a dollar (plus 9.25 percent on most items, extracted by you know who). I returned from my fact-finding trip with a peanut bar, a pack of four pens, a bag of

non-licorice sticks, a bag of cashew pieces, a small bouquet of artificial flowers, a pack of four alkaline AA cells, 48 ounces of soda, and a can of Pringles-like chips, each one dollar. Some of this is junk, but shopping there is just so darn much fun! Management must be well aware of that psychology.


Dollar Tree must drive the good people at the Bureau of Labor Statistics batty. What would they do with four ball point pens for a dollar when compiling the Consumer Price Index? That's perhaps a tenth of the inflation-adjusted price of 25 years ago. The low price is probably due to Dollar Tree's acumen in scooping up remainder stocks at very low prices more than anything else. Yet this price would contribute to the idea that price inflation is low and therefore the Fed has

done a good job of managing our money.

Dollar Tree's margins, amazingly, are double those of Safeway. And they take credit cards. Though I feel a tinge of guilt when I swipe my card and trigger a merchant fee, I shouldn't because handling cash is expensive too. It's unfortunate that the new restrictions on bank debit-card fees may result in the end of debit card use at places like Dollar Tree.

The Great Recession of late is nowhere to be seen in Dollar Tree's stock chart, and in fact the shares have tripled over the past three years. The downturn clearly attracted lots of cost-conscious customers. DLTR pays no dividend, although they have been buying back shares—a tax-efficient strategy often used in lieu of a dividend.

Perhaps the most important aspect of the three chains I have highlighted, from my point of view as a consumer, is the competition they face. That's what keeps them scrambling to earn my dollars.

A field trip to a local Safeway, Kmart, or Dollar Tree, or one of their competitors, should be part of every economics curriculum, along with one to a mom-and-pop operation like Lorenzo's. All of us when we go shopping should think about the amazing goods and services we get and the incentives that keep them coming. 

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Perhaps the most important aspect of the three chains I have highlighted is the competition they face.

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# A Tale of Two Situations

BY PAUL SCHWENNESEN

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Once upon a time selling a chicken was fraught with few if any legal implications. Remodeling a shed was equally simple from a regulatory standpoint. Today, however, we live in more enlightened times. Protected from our wayward desires by an empowered bureaucracy, we can rest easier knowing that decisions like what we eat and where we build are being carefully managed by authorities.

## Playing Chicken

Josh is a Mennonite friend who happens, by the grace of native talent and a powerful work ethic, to produce magnificent chickens. Raised on green growing pasture, they are never medicated, never fed artificial supplements or genetically selected to grow abnormally fast. They develop rich golden fat and a deep flavor, characteristics that have been more or less lost in modern, streamlined, highly efficient poultry production. Not surprisingly, Josh's chickens are in high demand among food cognoscenti and fine restaurants. A couple of years ago I began bringing Josh's chickens to my farmers' market stand to sell alongside our equally popular grassfed beef. Josh and I, in a classic entrepreneurial endeavor, have made these wholesome chickens available to happy, discerning customers who would otherwise be unable to justify a three-hour commute to buy a bird for dinner.



The USDA doesn't believe you can be trusted to buy this on your own.  
hermitsmoore [flickr]

Josh processes his chickens on his farm under a legal exemption allowing him to avoid industrial (and expensive) processing plants. Each chicken he produces is clearly labeled as to origin, method of production, and added ingredients (none); the label also cites the statute that allows him to operate unmolested.

Recently he was informed by the Food Safety Inspection Service, the regulatory arm of the USDA, that he faced a "situation." They had discovered a chink in the otherwise protective "non-molestation" statute. Because he is marketing chickens to an *intermediary* (me), his product is therefore rendered illegal and he must desist. In a disturbing addendum the inspector also let slip that the USDA would be willing ("free of charge") to take over inspection of his facilities and that they would be "more than happy to help him get going," presumably in the chicken business.

The same authority willing to allow a company to distribute (and I'm not making this up) a neon-green sugar drink with the word "sweetener" (in quotes) on the ingredient list believes that customers cannot be trusted to buy a natural chicken from a reputable farmer.

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*Paul Schwennesen (schwennesen@mac.com) is a southern Arizona rancher and a regular contributor to PERC, the Property and Environment Research Center. This article first appeared at TheFreemanOnline.org.*

## Raising the Roof

I have an old shed I'd like to turn into an office. It's a small, uncomplicated project. I do not intend to host conventions there or otherwise expose innocents to my construction acumen.

I could use a hand, so I called a man advertising his handyman services on a placard outside the feed store. We talked it over; he needed capital and I needed labor; we had a deal. I had expected to be hammering on joists this morning instead of this keyboard but for the fact that he didn't show up today. Why? The county, vigorously addressing this "situation," had torn down all his signs (including one in front of his home), citing him for neglecting to indicate his contractor's license. Fair enough, you say; he knows the rules and got burned. So why the stink?

Well, here is a gentleman in his mid-50s with more than 25 years of construction experience who was a licensed contractor in Florida before moving to Arizona. For more than six months he has been fighting to gain the requisite licensing. He is obliged, among other onerous duties, to provide 25 references spanning his entire career and from across a continent before his application can enter the waiting list. He estimates his application will cost \$10,000 and take another six months. He is afraid to work with me, even as a "tutor," because he has been told that counties often set people up to entrap them.

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Once again  
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Once again presumptuous authority has stepped between educated, intelligent adults to prevent free, fully cognizant transactions. Am I a pathological obedi-phobe to find such meddling unsavory?

Even if these cases turn out to be simple errors in communication or an innocent overstepping of authority, the damage has already been done. The perception *alone* is enough to chill behavior. In relaying these injustices I have now wasted hours that could have otherwise been spent creating outstanding beef; Josh is

reducing his next order of chicks; and an out-of-work man with a lifetime of skills sits idle wishing for work.

Perhaps these are just the fickle vagaries, the marginalia of an otherwise appropriate regulatory regime. But I'm afraid they represent a deeper, metastasized, problem. The late Mr. Jefferson, that "intellectual voluptuary" according to his Big Government nemeses, explained that government's *only* purpose is to secure natural rights. Governments, he believed, exist to protect life, liberty,

property, and little else. It's probably archaic of me to wish for a return to such a limited view, but I can't help it. The kind of absurd oversight now considered standard practice feels fundamentally unjust.

It would be wonderful to live in a world where selling a chicken and remodeling a shed weren't rife with official allegations or burdened with State prohibitions. 

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## Talk About a Revolution

BY DONALD J. BOUDREAUX

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What caused the Industrial Revolution? Few questions in economic history are discussed and debated as much as this one. Even if you happen to be among the small number of people who regret what historian (and *Freeman* columnist) Steve Davies calls “the wealth explosion” of the past couple of centuries, you must nevertheless find this question intriguing, for it asks about the causes of what is surely the single greatest change in human history.

For at least 70 millennia the standard of living of the vast majority of us humans was at, or very near, subsistence. Then all of a sudden (in the great sweep of history)—boom! Starting in the eighteenth century living standards shot upward not only for royalty and the landed nobility but for *everyone*. And to this very day our standard of living—including our life expectancy and measures of healthfulness—continues to rise.

Why?

A question so momentous elicits plenty of answers. Among the well-known answers that have been offered over the years are capitalist exploitation of workers; capitalist exploitation of colonies; religious beliefs that promoted savings and risk-taking; and England’s 1688 Glorious Revolution, which is said to have made property rights more secure. And new answers continue to be offered, such as economist Gregory Clark’s thesis, explained in his book *A Farewell to Alms*, that genes equipping human beings especially well for carrying out enterprise and commerce were passed down from the English nobility into the English middle classes—thus equipping the bourgeoisie finally to do its thing.

Some of these answers are more plausible than others (with Clark’s being among the *least* plausible). But not a single one is satisfactory. None explains why the

Industrial Revolution began *where* it began (northwestern Europe) or why it began *when* it began (the eighteenth century). Another explanation is needed.

And another explanation has indeed just been offered: *a change in rhetoric*. This rhetoric-based thesis comes from the great economist and historian Deirdre McCloskey in her 2010 book *Bourgeois Dignity*. It’s a book that, like only three or four others I’ve read, caused a major change in my thinking.

McCloskey reviews with awesome thoroughness all the major (and many not-so-major) explanations for the Industrial Revolution. She finds them all wanting.

Some of these explanations are more obviously flawed than others. Capitalist exploitation of workers, for instance, fails spectacularly as an explanation on a variety of fronts, not the least of which is that the very people from whom the newly created wealth is supposedly extracted (the masses) are the same people who have benefitted most from this wealth explosion.

If capitalist wealth was wrenched from the bent backs and sweaty brows of the working class, then surely workers as a group would today be much poorer rather than (depending on how you count) 10 to 100 times *wealthier* than were their pre-industrial peasant ancestors. As McCloskey emphasizes, “[M]odern economic growth did not and does not and cannot depend on the scraps to be gained by stealing from poor people. It is not a good business plan.”

A more plausible explanation is one associated most familiarly with the Nobel economist Douglass North and his frequent coauthor Barry Weingast. It’s an expla-

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### None of the explanations offered yet fully explain the Industrial Revolution.

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*Donald Boudreaux (dboudrea@gmu.edu) is a professor of economics at George Mason University, a former FEE president, and the author of Globalization.*

nation I once accepted. According to North and Weingast, the replacement of the Stuart monarchs by William and Mary in the late seventeenth century resulted in more secure property rights in England, which in turn sparked the Industrial Revolution.

While everyone with a modicum of sense understands that the Industrial Revolution would not have happened if private property rights in England weren't secure, McCloskey argues persuasively that the Glorious Revolution—for all of its undoubted benefits—did not bring about much of a change in England's property laws or in the security of private property rights. Here's what McCloskey writes on page 318:

England when at peace, which was the usual case throughout its history, was a nation of ordinary property laws, no more or less corrupt than Chicago in 1925 or the American South under segregation, places in which innovation flourished. It was so, for example, even when the Stuart kings were undermining the independence of the judiciary in order to extract the odd pound with which to have a foreign policy in a new age of standing armies and floating navies. And the amounts extracted, contrary to the Northian suggestion that the king owned everything, were by modern standards pathetically small. The figures offered by North and Weingast themselves imply that total government *expenditure* under James I and Charles I was at most a mere 1.2 to 2.4 percent of national income. . . .

[T]he Stuart kings, grasping though they were, and emboldened (as were many monarchs at the time) by the newly asserted divine right of kings, were nothing like as efficient in predation as modern governments—or indeed as were the Georgian kings of Great Britain and Ireland who eventually succeeded the Stuarts. [Original emphasis.]

Indeed so. This explanation fails. The mainstream economist's long-preferred expla-

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Speaking of  
merchants and  
entrepreneurs with  
respect made it  
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best and brightest to  
enter these fields.

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nation is capital accumulation. It fares no better than does the capitalist-exploitation thesis and the North-Weingast thesis.


According to the capital-accumulation thesis, people (for any of a variety of different reasons) began to save more. These savings were transformed into capital goods whose use increased the productivity of labor. And so the Industrial Revolution happened.

But as McCloskey points out, history is full of instances in which people saved just as much as in northwestern Europe at the dawn of the Industrial Revolution, but without unleashing any revolutionary industrial forces. Moreover—and contrary to a thesis still fondly held by many people from Marxists to Reagan Republicans—economic growth does not require substantial capital accumulation. It can be, and has been, funded largely out of retained earnings.

What *does* best explain why the Industrial Revolution began in northwestern Europe in the eighteenth century is that for the first time in history people then and in that part of the world began to *talk* about the bourgeoisie with respect.

This new “habit of the lip” (as McCloskey calls it) replaced the older habit of talking about entrepreneurs and merchants as being, at best, contemptible functionaries whose services society might need in some measure but whose importance to society fell far below the services supplied by warriors, royalty, noblemen, and priests.

With merchants and entrepreneurs in eighteenth-century Holland and England finally accorded widespread dignity, society's best and brightest no longer avoided the world of private business to pursue careers at court or on the battlefield. The power of the bourgeoisie in these countries with tolerably secure private property rights was thus finally unleashed to revolutionize the economy—first in northwestern Europe and, continuing to today, the rest of the world.

In my next column I will reflect on some implications of McCloskey's thesis. 

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# Indigenous African Free-Market Liberalism

BY GEORGE B. N. AYITTEY

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Africa remains an enigmatic paradox: a continent rich in mineral resources yet so desperately poor. But the paradox is only superficial: Africa is poor because she is not free.

Only 10 of the 54 African countries can be labeled economic success stories: Angola, Benin, Botswana, Ghana, Madagascar, Malawi, Mali, Mauritius, Uganda, and South Africa. This hardly comes as a surprise as Africa is the most economically unfree continent. No African country is classified by the Heritage Foundation/*Wall Street Journal's* 2011 Index of Economic Freedom as “free” ([heritage.org/index](http://heritage.org/index)). Mauritius is classified as “mostly free,” and listed as “moderately free” are Botswana, Cape Verde Islands, South Africa, Rwanda, Madagascar, Uganda, and Burkina Faso. (Some of the countries labeled economic success stories have undemocratic political systems: Angola, Burkina Faso, Madagascar, Rwanda, and Uganda.)

Ironically, traditional Africa, in contrast to modern Africa, was characterized by much economic freedom for centuries before the arrival of the European colonists. There the basic economic and social unit was the extended family, the lineage, or the clan. The means of production were owned by the lineage—a private entity separate from the tribal government—and thus privately owned, although individual ownership was common. Land, for example, was lineage-controlled, giving rise to the myth of communal ownership, while hunting gear, spears, and fishing canoes were individually owned. Nevertheless the extended family acted as a corporate unit, marshaled family labor, and decided what crops to cultivate on the family land. There was

sexual division of labor, and the cultivation of food crops was always a female occupation in traditional Africa, which explains why over 70 percent of Africa’s peasant farmers today are women. Produce harvested from the farms was used to feed the family; any surplus was sold in free village markets.

## Ubiquitous Markets

Markets were ubiquitous in precolonial Africa. Two types were distinguishable: the periodic (weekly) rural markets and the large regional markets. Some of these regional markets grew into large towns such as Timbuktu, Kano, Salaga, Sofala, and Mombasa. They served as exchange points for long-distance trade. Timbuktu and Kano, for example, served the long-distance caravan trade over the Sahara and the long distance trade from the coastal areas. Free-trade routes criss-

crossed the continent. Goods and people moved freely along them. Men dominated the long-distance trade while women held sway over the rural markets, which largely involved trade in agricultural produce.

Prices on Africa’s markets were not controlled or fixed by chiefs or tribal governments. They have always been determined by bargaining in accordance with the laws of demand and supply. For example, when corn is scarce, its price rises, and the price of fish generally tends to be higher in the morning than in the evening, when fishmongers are anxious to return home.

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Africa is poor  
because she is  
not free.

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Besides primary activities such as agriculture, hunting, and fishing, Africans engaged in a variety of industrial activities in the precolonial era—such as cloth-weaving, pottery, brass works, and the mining and smelting of iron, gold, silver, copper, and tin. In Benin, “the glass industry made extraordinary strides,” Cheikh Anta Diop writes in *Pre-colonial Black Africa*. In Nigeria, “the cloth industry was an ancient craft,” adds Richard Olaniyan in *Nigerian History and Culture*. Kano attained historical prominence in the fourteenth century with its fine indigo-dyed cloth, which was traded for goods from North Africa. Even before the discovery of cotton, other materials had been used for cloth. The Igbo, for example, made cloth from the fibrous bark of trees. The Asante also were famous for their cotton and bark cloth (*kente* and *adwumfo*).

### Startup Capital

To secure initial startup capital for commercial operations, African natives turned to two traditional sources of finance. One was the “family pot.” Each extended family had a fund into which members made contributions according to their means. Among the Ewe seine fishermen of Ghana, the family pot was called *agbadoho*. Members borrowed from this pot to purchase their fishing nets and paid back the loans.

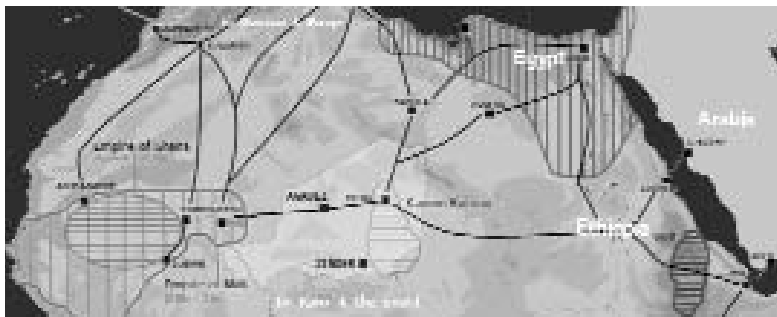
The second source of finance was a revolving credit scheme that was widespread across Africa. It was called *susu* in Ghana, *esusu* in Yoruba, *tontines* or *chilembe* in Cameroon, and *stokfel* in South Africa. Typically, a group of, say, ten people would contribute perhaps \$100 each to a fund. When the fund reached a certain amount—say, \$1,000—it was handed over to the members in turn, who invested the cash in an endeavor. The Grameen Bank in Bangladesh was built on this concept of a revolving rural credit scheme.

Profit made from these economic activities was private property; it was for the traders to keep, not for the

chiefs or rulers to expropriate. The traditional practice was to share the profit. Under the *abusa* scheme devised by the cocoa farmers of Ghana at the beginning of the twentieth century, net proceeds were divided into three parts: A third went to the owner of the farm, another third went to hired laborers, and the remaining third was set aside for farm maintenance and expansion. Under the less common *abunu* system, profits were shared equally between the owner and the workers. Variants of this profit-sharing scheme were extended beyond agriculture to commerce and fishing.

Chiefs and kings played little or no role in economic production. Their traditional role was to create a peaceful environment for trade and economic activity to flourish. No tribal government enterprises existed. In most cases across Africa, Peter Wickins writes in *An Economic History of Africa*, “there was no direct inter-

ference with production.” In fact State intervention in the economy was the exception rather than the rule in precolonial Africa. As Robert H. Bates observed in *Essays on the Political Economy of Rural Africa*, “In precolonial



Free-trade routes crisscrossed pre-colonial Africa.

T L Miles [Wikimedia]

Africa, the states underpinned specialization and trade; they terminated feuds; they provided peace and stability and the conditions for private investment; they formed public works. . . . In these ways, the states secured prosperity for their citizens.”

### Peasant Capitalism

The system described above may be called “peasant capitalism.” It differs from Western capitalism in two respects. First, as noted, the operating unit was the clan, not the individual. Second, profit was shared. Regardless, the clan was free to engage in whatever economic activity it chose. It did not line up before the chief’s palace for permission to engage in trade, fishing, or cloth-weaving. If an occupation or a line of trade was unprofitable, African natives switched to more profitable ones and always enjoyed the economic free-



dom to do so. In modern parlance, those who go about their economic activities on their own free will are called “free-enterprisers.” By this definition, the *kente* weavers of Ghana; the Yoruba sculptors; the gold-, silver-, and blacksmiths; as well as the various indigenous craftsmen, traders, and farmers were free-enterprisers. The natives have been so for centuries. The Masai, Somali, Fulani, and other pastoralists who herded cattle over long distances in search of water and pasture also were free-enterprisers. So were the African traders who traveled great distances to buy and sell commodities—a risk-taking economic venture. The extended family system offered them the security and the springboard they needed to launch and take the risks associated with entrepreneurial activity. If they failed, the extended family system was available to support them. By the same token, if they were successful, they had some obligation to the same system.

### Indigenous Africa under Colonial Rule

When Africa was colonized, the Western powers sought to control indigenous economic activities. For the most part, however, the natives were free to go about their business. In West Africa, European settlement was confined to the urban enclaves and the rural areas were left almost intact. In central and southern Africa the story was a little different. The plunder and barbarous atrocities against the natives in King Leopold’s Congo need no belaboring. In southern Africa, where the climate was more congenial to European settlement, there were widespread land seizures, massive dislocation of the natives, and restrictions on their movements and places of residence. Nonetheless, despite the formidable odds, the natives could open shops and compete with European firms. Many did and were successful. There were rich African shopkeepers as well as timber merchants, transport owners, and farmers during the colonial period. Given the opportunities and access to capital, African natives showed themselves capable of competing with the foreigners.

Given the opportunities and access to capital, African natives showed themselves capable of competing with the foreigners.

### The Golden Age of Peasant Prosperity

The period 1880–1950 may be described as the golden age of peasant prosperity in Africa. Though colonialism was invidious, one of its little-acknowledged benefits was the peace it brought Africa. The slave trade and competition over resources had fueled many of the tribal wars in precolonial Africa. The abolition of the slave trade in the 1840s eliminated a major cause of war, and the introduction of cash crops to service Europe’s Industrial Revolution provided new economic opportunities. In addition, skeletal forms of infrastructure (roads, railways, bridges, schools, post offices, and so on) were laid down during this period. This greatly facilitated the movement of goods and people and gave economic expansion a tremendous boost. For example, A. A. Boahen writes in *Topics in West African History*,

The volume of cotton exports from French West Africa rose from an average of 189 tons in 1910–14 to 495,000 tons in 1935–39, while that of coffee soared from 5,300 tons in 1905 to 495,000 tons in 1936. The volume of groundnuts (peanuts) exported from Senegal alone increased from 500,000 in the 1890s to 723,000 tons in 1937. However, the greatest success story was that of cocoa production in Ghana, whose

volume of exports rose from only 80 lbs in 1881 to 2 million lbs in 1901 and 88.9 million lbs in 1911. This made Ghana the leading producer of cocoa in the world, and the quantity continued to rise until it reached a record figure of 305,000 tons in 1936.

The economic system used by African natives to engineer that prosperity was their own indigenous system. Except for a few places in Africa, notably in the Portuguese colonies, plantation agriculture was unknown. Cash crops—cocoa, coffee, tea, cotton—were grown by peasant farmers on their own individual plots using traditional farming methods and practices.

The fundamental point is that African natives had the economic freedom to decide for themselves what

crops they could cultivate and what to do with the proceeds. As Francis Kendall and Leon Louw—two white South Africans—noted in *After Apartheid: The Solution*: “The freedom that characterized tribal society in part explains why black South Africans responded so positively to the challenges of a free market that, by the 1870s, they were out-competing whites, especially as farmers.” But black success had tragic consequences. White colonists feared black competition:

Not only were blacks better farmers but they were also competing with white farmers for land. Moreover, they were self-sufficient and hence not available to work on white farms or in industry, particularly in the Transvaal gold mines where their labor was badly needed. As a result a series of laws was passed that robbed blacks of almost all economic freedom. The purpose of these laws was to prevent blacks from competing with whites and to drive them into the work force.

In 1869, 1876, and 1884 the Cape Assembly passed a series of Location Acts (the first set of apartheid laws) that sought to protect white farmers from black competition and to force blacks to become wage laborers by working for white farmers. Then came the Native Land Act of 1913. The rest is history.

### Postcolonial Predation

Elsewhere in Africa the natives were stripped of their economic freedom by functionally and culturally illiterate leaders after independence in the 1960s. Claiming that free-market capitalism was a Western ideology, most of the first generation of post-colonial African leaders adopted State socialism—the antithesis of free markets—as their economic ideology. A proliferation of socialist ideologies swept the conti-

nent, including some quite bizarre examples: Julius Nyerere’s *Ujaama* (“familyhood,” or socialism, in Swahili) in Tanzania; Leopold Senghor’s vague amalgam of Marxism, Christian socialism, humanitarianism, and “Negritude” in Senegal; Kenneth Kaunda’s humanism in Zambia; Marien N’Gouabi’s scientific socialism in the Congo (Brazzaville); Muammar Gaddafi’s Arab-Islamic socialism in Libya; Kwame Nkrumah’s *Nkrumahism* (“consciencism”) in Ghana; Mobutu Sese Seko’s *Mobutuism* in Zaire; and Habib Bourguiba’s *Bourguibisme* in Tunisia.

Unoccupied land, along with the commanding heights of the economy, was seized by the State in Angola, Ethiopia, Nigeria, Mozambique, Tanzania, and other countries. Foreign companies were nationalized, and a plethora of government controls were instituted to assure State participation in the economy. A dizzying array of State enterprises was established haphazardly.

### Fundamentally Alien

This socialist ideology is fundamentally alien and failed miserably everywhere it was implemented in Africa.

State ownership, controls, and intervention were never part of Africa’s economic heritage.

More outrageous were the frontal attacks on trade and commerce the natives had engaged in for centuries. In many African countries they were squeezed. Indeed, there was a time when the director of the Club du Sahel, Anne de Lattre, would begin her meetings with the remark, “Well, there is one thing we all agree on: that private traders should be shot” (*West Africa*, Jan. 26, 1987, 154). Under Sekou Toure’s nonsensical program “Marxism in African Clothes” in Guinea, “unauthorized trading became a crime” (*New York Times*, Dec. 28, 1987, 28).

In Ghana the Marxist Rawlings regime denounced indigenous markets as dens of economic profiteers and



White colonists used racist laws to protect themselves from black competitors and force natives to become their laborers. E I C [Wikipedia]

saboteurs. It slapped stringent price controls on hundreds of goods during the 1981–83 period. Markets were burned down and destroyed at Accra, Kumasi, Koforidua, and other cities when traders refused to sell at government-dictated prices.

On May 18, 2005, another episode of economic lunacy was repeated in Zimbabwe. Paramilitary units armed with batons and riot shields smashed up stalls of street traders in a police operation in the capital, Harare. “The official statement claimed that the raids were aimed at black-market profiteers who were hoarding commodities,” the *New York Times* reported. In what President Robert Mugabe dubbed “Operation Murambatsvina,” which the State-owned press translates as “Operation Restore Order” but in Shona translates as “Operation Drive Out the Rubbish,” the police destroyed 34 flea markets and netted some Z\$900 million (\$100,000) in fines and seized some Z\$2.2 billion of goods. “President Mugabe blamed the West for the

nation’s economic crisis,” *BBC News Africa* reported. At least 22,000 street traders were arrested and over 700,000 people left homeless.

No African chief or king could commit such acts of economic lunacy and cultural perfidy and remain chief. There is nothing wrong with the traditional economic system of free markets, free enterprise, and free trade. All the leadership had to do after independence was to build on it. Only Botswana did this. But the vast majority of African leaders—an assortment of black neocolonialists, Swiss-bank socialists, quack revolutionaries, and crocodile liberators—instead went abroad and copied all sorts of alien practices to impose on their people.

Have they learned? No. Black neocolonialists have been busy importing another alien ideology, from China: On August 14, 2010, *Xinhua* reported: “A total of 25 Confucius institutes have been opened in 18 African countries.”



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# Ludwig von Mises: Economist, Philosopher, Prophet

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*Editor's Note: September 29 is the 130th anniversary of the birth of Ludwig von Mises, the great Austrian economist, defender of classical liberalism, and adviser to FEE. Below is a selection of Mises's writings published in The Freeman over the years.*

## The Market

It is customary to speak metaphorically of the automatic and anonymous forces actuating the “mechanism” of the market. Such metaphors disregard the fact that the only factors directing the market and the determination of prices are purposive acts of men. There is no automatism; there are only men consciously and deliberately aiming at ends chosen.

The market is a social body; it is the foremost social body. Everybody in acting serves his fellow citizens. Everybody, on the other hand, is served by his fellow citizens. Everybody is both a means and an end in himself, an ultimate end for himself and a means to other people in their endeavors to attain their own ends.

Each man is free; nobody is subject to a despot. Of his own accord the individual integrates himself into the cooperative system. The market directs him and reveals to him in what way he can best promote his own welfare as well as that of other people. The market is supreme. The market alone puts the whole social system in order and provides it with sense and meaning.

The market is not a place, a thing or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor.

The recurrence of individual acts of exchange generates the market step by step with the evolution of the division of labor within a society based on private property. Such exchanges can be effected only if each party values what he receives more highly than what he gives away.

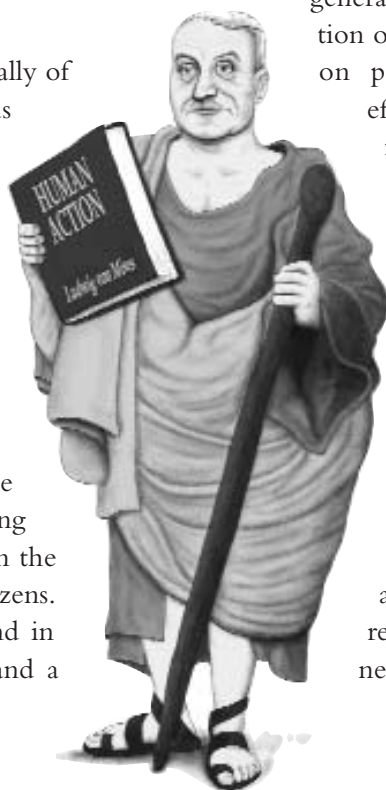
The divisibility of money, unlimited for all practical purposes, makes it possible to determine the exchange ratios with nicety.

The market process is coherent and indivisible. It is an indissoluble intertwinement of actions and reactions, of moves and countermoves. But the insufficiency of our mental abilities enjoins upon us the necessity of dividing it into parts and analyzing each of these parts separately. In resorting to such artificial cleavages we must never forget that the seemingly autonomous existence of these parts is an imaginary

makeshift of our minds. They are only parts, that is, they cannot

even be thought of as existing outside the structure of which they are parts.

The market economy as such does not respect political frontiers. Its field is the world. The market makes people rich or poor, determines who shall run the big plants and who shall scrub the floors, fixes how many



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people shall work in the copper mines and how many in the symphony orchestras. None of these decisions is made once and for all; they are revocable every day. The selective process never stops.

To assign to everybody his proper place in society is the task of the consumers. Their buying and abstention from buying is instrumental in determining each individual's social position. The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy. The consumers, not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. It is true, in the market the various consumers have not the same voting right. The rich cast more votes than the poorer citizens. But this inequality is itself the outcome of a previous voting process.

If a businessman does not strictly obey the orders of the public as they are conveyed to him by the structure of market prices, he suffers losses, he goes bankrupt. Other men who did better in satisfying the demand of the consumers replace him.

The consumers make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. They do not care one whit for past merit and vested interests.

Market prices tell producers what to produce, how to produce, and in what quantity. The market is the focal point to which activities of the individuals converge. It is the center from which the activities of individuals radiate.

The market economy, or capitalism, as it is usually called, and the socialist economy preclude one another. There is no mixture of the two systems possible or thinkable; there is no such thing as a mixed economy, a system that would be in part capitalistic and in part socialist. The market economy is the product of a long evolutionary process. It is the strategy, as it were, by the

application of which man has triumphantly progressed from savagery to civilization.

## Praxeology

It is no longer possible to define neatly the boundaries between the kind of action which is the proper field of economic science in the narrower sense, and other action.

Acting man is always concerned with both "material" and "ideal" things. He chooses between alternatives. No matter whether they are to be classified as material or ideal.

The general theory of choice is much more than merely a theory of the "economic side" of human endeavors and of man's striving for commodities and an improvement in his material well-being. It is the science of every kind of human action. Choosing determines all human decisions.

Out of the political economy of the classical school emerges the general theory of human action, praxeology. The economic or catallactic problems are imbedded in a more general science, and can no longer be severed from this connection. No treatment of economic problems proper can avoid starting from acts of choice; economics becomes a part, although the hitherto best elaborated part, of a more universal science, praxeology.

Praxeology—and consequently economics too—is a deductive system. It draws its strength from the starting point of its deductions, from the category of action. No economic theorem can be considered sound that is not solidly fastened upon this foundation by an irrefutable chain of reasoning. A statement proclaimed without such a connection is arbitrary and floats in midair. It is impossible to deal with a special segment of economics if one does not encase it in a complete system of action.

The empirical sciences start from singular events and proceed from the unique and individual to the more universal. Their treatment is subject to specialization. They can deal with segments without paying attention

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Acting man is always concerned with both "material" and "ideal" things. He chooses between alternatives.

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to the whole field. The economist must never be a specialist. In dealing with any problem he must always fix his glance upon the whole system.

In speaking of the laws of nature we have in mind the fact that there prevails an inexorable interconnect- edness of physical and biological phenomena and that acting man must submit to this regularity if he wants to succeed. In speaking of the laws of human action we refer to the fact that such an inexorable interconnect- edness of phenomena is present also in the field of human action as such and that acting man must recog- nize this regularity too if he wants to succeed.

In physics we are faced with changes occurring in various sense phenomena. We discover a regularity in the sequence of these changes and these observations lead us to the construction of a science of physics.

In praxeology the first fact we know is that men are purposively intent upon bringing about some changes. It is this knowledge that integrates the subject matter of praxe- ology and differentiates it from the subject matter of the natural sciences. We know the forces behind the changes, and this aprioristic knowl- edge leads us to a cognition of the praxeological process. The physicist does not know what electricity “is.” He knows only phenomena attrib-

uted to something called electricity. But the economist knows what actuates the market process. It is only thanks to this knowledge that he is in a position to dis- tinguish market phenomena from other phenomena and to describe the market process.

Praxeology is a theoretical and systematic, not a his- torical, science. Its statements and propositions are not derived from experience. They are, like those of logic and mathematics, a priori. They are not subject to veri- fication or falsification on the ground of experience and facts.

The teachings of praxeology and economics are valid for every human action without regard to its underlying motives, causes, and goals. The ultimate judgments of value and the ultimate ends of human action are given for any kind of scientific inquiry; they

are not open to any further analysis. Praxeology deals with the ways and means chosen for the attainment of such ultimate ends. Its object is means, not ends. The only standard which it applies is whether or not the means chosen are fit for the attainment of the ends aimed at.

Only the insane venture to disregard physical and biological laws. But it is quite common to disdain prax- eological laws. Rulers do not like to admit that their power is restricted by any laws other than those of physics and biology. They never ascribe their failures and frustrations to the violation of economic law.

### Profit and Loss

Profits are the driving force of the market economy. The greater the profits, the better the needs of the consumers are supplied. For profits can only be reaped by removing dis- crepancies between the demands of the consumers and the previous state of production activities. He who serves the public best, makes the high- est profits. In fighting profits govern- ments deliberately sabotage the operation of the market economy.

The profits of those who have pro- duced goods and services for which the buyers scramble are not the source of the losses of those who have brought to the market commodities in the purchase of which the public is not prepared to pay the full amount of production costs expended. These losses are caused by the lack of insight displayed in anticipating the future state of the market and the demand of the con- sumers.

There are in the market economy no conflicts between the interests of the buyers and sellers. There are disadvantages caused by inadequate foresight. It would be a universal boon if every man and all mem- bers of the market society would always foresee future conditions correctly and in time and act accordingly. However, man is not omniscient. It is wrong to look at these problems from the point of view of resentment and envy.

If profits were to be curtailed for the benefit of those

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In praxeology the first fact we know is that men are purposively intent upon bringing about some changes.

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whom a change in the data has injured, the adjustment of supply to demand would not be improved but impaired. If one were to prevent doctors from occasionally earning high fees, one would not increase but rather decrease the number of those choosing the medical profession.

Profit and loss are favorable to some members of society and unfavorable to others. Hence, people concluded, *the gain of one man is the damage of another; no man profits but by the loss of others*. This dogma is at the bottom of all modern doctrines teaching that there prevails, within the frame of the market economy, an irreconcilable conflict among the interests of any nation and those of all other nations. It is entirely wrong with regard to any kind of entrepreneurial profit or loss.

What produces a man's profit in the course of affairs within an unhampered market society is not his fellow citizen's plight and distress, but the fact that he alleviates or entirely removes what causes his fellow citizen's uneasiness. What hurts the sick is the plague, not the physician who treats the disease. The doctor's gain is not an outcome of the epidemics, but the aid he gives to those afflicted.

An excess of the total amount of profits over that of losses is a proof of the fact that there is economic progress and improvement in the standard of living of all strata of the population. The greater this excess is, the greater is the increment in general prosperity. Entrepreneurial profits and losses are essential phenomena of the market economy. There cannot be a market economy without them.

It is absurd to speak of a "rate of profit" or a "normal rate of profit." Profit is not related to or dependent on the amount of capital employed by the entrepreneur. Capital does not "beget" profit. Profit and loss are entirely determined by the success or failure of the entrepreneur to adjust production to the demand of the consumers. Entrepreneurial profits are not a lasting phenomenon but only temporary. There prevails an inherent tendency for profits and losses to disappear.

The entrepreneurial function, the striving of entre-

preneurs after profits, is the driving power in the market economy. Profit and loss are the devices by means of which the consumers exercise their supremacy on the market. The behavior of the consumers makes profits and losses appear and thereby shifts ownership of the means of production from the hands of the less efficient into those of the more efficient.

Production for profit is necessarily production for use, as profits can only be earned by providing the consumers with those things they most urgently want to use.

A medium of exchange is a good which people acquire neither for their own consumption nor for employment in production activities, but with the intention of exchanging it at a later date against those goods which they want to use either for consumption or for production.

Nothing can enter into the function of a medium of exchange which was not already previously an economic good to which people assigned exchange value before it was demanded as such a medium.

Money is the thing which serves as the generally accepted and commonly used medium of exchange. This is its only function. All other functions which people ascribe to money are merely particular aspects of its primary and sole function, that of a medium of exchange.

What is employed as money is a commodity which is used also for nonmonetary purposes. Under the gold standard, gold is money and money is gold. It is immaterial whether or not the laws assign legal tender quality only to gold coins minted by the government. What counts is that these coins really contain a fixed weight of gold and that every quantity of bullion can be transformed into coins. Under the gold standard the dollar and the pound sterling were merely names for a definite weight of gold. We call such a money *commodity money*.

A second sort of money is *credit money*. Credit money evolved out of the use of money substitutes. It was customary to use claims, payable on demand and absolutely secure, as substitutes for the sum of money to which they gave claim.

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The doctor's gain  
is not the outcome  
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As long as these claims had been daily maturing claims against a debtor of undisputed solvency and could be collected without notice and free of expense, their exchange value was equal to their face value; it was this perfect equivalence which assigned to them the character of money substitutes.

*Fiat money* is money consisting of mere tokens which can neither be employed for any industrial purposes nor convey a claim against anybody. The important thing to be remembered is that with every sort of money, demonetization—i.e., the abandonment of its use as a medium of exchange—must result in a serious fall of its exchange value.

In the course of history various commodities have been employed as media of exchange. A long evolution eliminated the greater part of these commodities from the monetary function. Only two,


the precious metals gold and silver, remained. In the second part of the nineteenth century more and more governments deliberately turned toward the demonetization of silver.



Ludwig von Mises  
Bettina Bien Greaves

The choice of the good to be employed as a medium of exchange and as money is never indifferent. It determines the course of the cash-induced changes in purchasing power. The question is only who should make the choice: the people buying and selling on the market, or the government? It was the market which in a selective process, going on for ages, finally assigned to the precious metals gold and silver the character of money. For two hundred years the governments have interfered with the market's choice of the money medium. Even the most bigoted étatists [statists] do not venture to assert that this interference has proved beneficial.

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# Which Strategy Really Ended the Great Depression?

BY BURTON FOLSOM, JR.



“World War II got us out of the Great Depression.” Many people said that during the war, and some still do today. The quality of American life, however, was precarious during the war. Food was rationed, luxuries removed, taxes high, and work dangerous. A recovery that does not make—as Robert Higgs points out in *Depression, War, and Cold War*.

Franklin Roosevelt recognized that the war only provided a short-term fix for the economy—and a very costly one at that. What would happen after the war—when 12 million troops came home and the strong demand for guns, bullets, tanks, and ships ceased?

Roosevelt envisioned a New Deal revival. He had created the National Resources Planning Board (NRPB) in 1939 and urged it during the war to plan for peacetime. The NRPB leaders believed that government planning was necessary to promote economic development. They consciously (and sometimes unconsciously) followed ideas popularized in 1936 by John Maynard Keynes in his bestselling book, *The General Theory of Employment, Interest and Money*.

Capitalism was inherently unstable, Keynes argued, and would rarely provide full employment. Therefore government intervention was needed, especially in recessions, to spend massive amounts of money on public works, which would create new jobs, expand demand, and rebuild consumer confidence. Yes, government would need to run large deficits, but economic stability was society’s reward. If government planners could manage aggregate demand through public works, the boom-bust business cycle could be flattened and economic development could be managed in the national interest. No more Great Depressions. Man could indeed be master of his economic future.

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Roosevelt envisioned a New Deal revival for the postwar years.

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Before and during the war Keynes’s ideas swept through the United States and first transformed the universities, then the political culture of the day. With statistics in hand and a near reverence for government, the Keynesians were the new generation of planners. They wanted to remake society. Not entrepreneurs, but economists were needed to gather data, plan government programs, and regulate economic development. Paul Samuelson, for example, a 21-year-old economics student, was cautious at first, but then euphoric after Keynes’s book was published. “Bliss was it in that dawn to be alive, but to be young was very heaven,” Samuelson wrote. Other economists soon accepted Keynes, and by the 1940s his ideas dominated the economics

profession. In 1948, Samuelson would defend Keynes by writing the best-selling economics textbook of all time.

## Planning for Peace

Those on the NRPB were among the excited disciples of Keynes and economic planning. The war itself seemed to be evidence that government jobs had pulled the U.S. economy out of the Depression. Now the economists and planners needed to take the nation’s helm to plan for peace.

According to Charles Merriam, vice president of the NRPB, “[I]t should be the declared policy of the United States government, supplementing the work of private agencies as a final guarantor if all else failed, to underwrite full employment for employables. . . .” That idea launched what Merriam and the NRPB dubbed “A New Bill of Rights.” FDR would call it his Eco-

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conomic Bill of Rights. Included was a right to a job “with fair pay and working conditions,” “equal access to education for all, equal access to health and nutrition for all, and wholesome housing conditions for all.”

## New Bill of Rights

FDR viewed this Economic Bill of Rights as his tool for guaranteeing employment for veterans (and others) after World War II. But it was more than a mere jobs ploy; it had the potential to transform American society. The first Bill of Rights, which became part of the Constitution, emphasized free speech, freedom of the press, and freedom of religion and assembly. They were freedoms *from* government interference. The right to speak freely imposes no obligation on anyone else to provide the means of communication. Moreover, others can listen or leave as they see fit.


But a right to a job, a house, or medical care imposes an obligation on others to pay for those things. The NRPB implied that the taxpayers as a group had a duty to provide the revenue to pay for the medical care, the houses, the education, and the jobs that millions of Americans would be demanding if the new bill of rights became law. In practical terms this meant that, say, a polio victim’s right to a wheelchair properly diminished all taxpayers’ rights to keep the income they had earned. In other words, the rights announced in the Economic Bill of Rights contradicted the property rights promised to Americans in their Declaration of Independence and in the Constitution.

FDR promoted his Economic Bill of Rights in his State of the Union message in 1944, but he died before the war ended. Shortly before his death, Senator James Murray (D-Mont.) introduced a full-employment bill

into the Senate for discussion. The bill committed the government in a general way to provide jobs if unemployment became too high. Many leading Democrats and economists supported Murray’s bill. “In this session of Congress,” *The New Republic* reported, “one of the first bills to be introduced will no doubt be the full employment bill of 1945, designed to carry out item number one in the Economic Bill of Rights.” *The Nation* joined *The New Republic* in endorsing the full-employment bill. “Mr. Roosevelt’s program,” it concluded, “is squarely based on the best economic authority available. It is entirely consistent with the economic doctrines of the distinguished British economist Lord Keynes.”

On September 6, 1945, President Harry Truman gave a major speech in which he supported the Economic Bill of Rights, especially a full-employment bill. Most congressmen, however, rejected both. Rep. Harold

Knutson (R-Minn.) said, “Nobody knows what the President’s full employment bill will cost American taxpayers, but the aggregate will be enormous.”

Instead, Knutson and many other congressmen favored cutting tax rates and slashing the size of government as the best measure to restore economic growth. Senator Albert Hawkes (R-N.J.) even argued that “the repeal of the excess-profits tax, in my opinion, may raise more revenue for the United States than would be raised if it were retained.” Hawkes proved to be prophetic. After vigorous debate Congress scrapped the Economic Bill of Rights and cut tax rates instead. American business then expanded, revenues to the Treasury increased to balance the federal budget, and unemployment was only 3.9 percent in 1946 and 1947. The Great Depression was over. 

## Congress scrapped the Economic Bill of Rights and cut tax rates instead.

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# Taylorism, Progressivism, and Rule by Experts

BY KEVIN A. CARSON

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The Progressive movement at the turn of the twentieth century—the doctrine from which the main current of modern liberalism developed—is sometimes erroneously viewed as an “anti-business” philosophy. It was anti-*market* to be sure, but by no means necessarily anti-business. Progressivism was, more than anything, managerialist.

The American economy after the Civil War became increasingly dominated by large organizations. I’ve written in *The Freeman* before about the role of the government in the growth of the centralized corporate economy: the railroad land grants and subsidies, which tipped the balance toward large manufacturing firms serving a national market (“The Distorting Effects of Transportation Subsidies,” November 2010, [tinyurl.com/26pr9z2](http://tinyurl.com/26pr9z2)), and the patent system, which was a primary tool of consolidation and cartelization in a number of industries (“How ‘Intellectual Property’ Impedes Competition,” October 2009, [tinyurl.com/lqzehv](http://tinyurl.com/lqzehv)).

These giant corporations were followed by large government agencies whose mission was to support and stabilize the corporate economy, and then by large bureaucratic universities, centralized school systems, and assorted “helping professionals” to process the “human resources” the corporations and State fed on. These interlocking bureaucracies required a large managerial class to administer them.

According to Rakesh Khurana of the Harvard Business School (in *From Higher Aims to Hired Hands*), the first corporation managers came from an industrial engineering background and saw their job as doing for

the entire organization what they’d previously done for production on the shop floor. The managerial revolution in the large corporation, Khurana writes, was in essence an attempt to apply the engineer’s approach (standardizing and rationalizing tools, processes, and systems) to the organization as a system.

And according to Yehouda Shenhav (*Manufacturing Rationality: The Engineering Foundations of the Managerial Revolution*), Progressivism was the ideology of the managers and engineers who administered the large organizations; political action was a matter of applying the same principles they used to rationalize their organizations to society as a whole. Shenhav writes (quoting

Robert Wiebe):

Since the difference between the physical, social, and human realms was blurred by acts of translation, society itself was conceptualized and treated as a technical system. As such,

society and organizations could, and should, be engineered as machines that are constantly being perfected. Hence, the management of organizations (and society at large) was seen to fall within the province of engineers. Social, cultural, and political issues . . . could be framed and analyzed as “systems” and “subsystems” to be solved by technical means. . .

During this period, “only the professional administrator, the doctor, the social worker, the

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Progressivism was,  
more than anything,  
managerialist.

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architect, the economist, could show the way.” In turn, professional control became more elaborate. It involved measurement and prediction and the development of professional techniques for guiding events to predictable outcomes. The experts “devised rudimentary government budgets; introduced central, audited purchasing; and rationalized the structure of offices.” This type of control was not only characteristic of professionals in large corporate systems. It characterized social movements, the management of schools, roads, towns, and political systems.

The managerialist ethos reflected in Progressivism emphasized transcending class and ideological divisions through the application of disinterested expertise. Christopher Lasch (*The New Radicalism in America*) wrote:

For the new radicals, conflict itself, rather than injustice or inequality, was the evil to be eradicated. Accordingly, they proposed to reform society . . . by means of social engineering on the part of disinterested experts who could see the problem whole and who could see it essentially as a problem of resources . . . the proper application and conservation of which were the work of enlightened administration.

In Shenhav’s account this apolitical ethos grew out of engineers’ self-perception: “American management theory was presented as a scientific technique administered for the good of society as a whole without relation to politics.” Frederick Taylor, whose managerial approach was a microcosm of Progressivism, saw bureaucracy as “a solution to ideological cleavages, as an engineering remedy to the war between the classes.” Both Progressives and industrial engineers “were horrified at the possibility of ‘class warfare’” and saw “efficiency” as a means to “social harmony, making each workman’s interest the same as that of his employers.”

The implications, as James Scott put it in *Seeing Like a State* (about which much more below), were quite authoritarian. Only a select class of technocrats with

“the scientific knowledge to discern and create this superior social order” were qualified to make decisions. In all aspects of life, policy was to be a matter of expertise, with the goal of removing as many questions as possible from the realm of public political debate to that of administration by properly qualified authorities. Politics, Scott writes, “can only frustrate the social solutions devised with scientific tools adequate to their analysis.” As a *New Republic* editorial put it, “the business of politics has become too complex to be left to the pretentious misunderstandings of the benevolent amateur.”

It’s true that Progressivism shaded into the anti-capitalist left and included some genuinely anti-business rhetoric on its left-wing fringe. But the mainstream of Progressivism saw the triumph of the great trusts over competitive enterprise as a victory for economic rationalization and efficiency—and the guarantee of

stable, reasonable profits to the trusts through the use of political power as a good thing.

In the end the more utopian or socialistic Progressives found they’d become “useful idiots.” Their desire to regiment and manage was given free rein mainly when it coincided with the needs of the corporatist economy

created by Rockefeller and Morgan. These needs were for what Gabriel Kolko (*The Triumph of Conservatism*) called “political capitalism,” the guiding theme of Progressive-era legislation. Political capitalism aimed to give corporate leadership “the ability, on the basis of politically stabilized and secured means, to plan future economic action on the basis of fairly calculable expectations” and to obtain “the organization of the economy and the larger political and social spheres in a manner that will allow corporations to function in a predictable and secure environment permitting reasonable profits over the long run.”

Mainstream Progressivism, far from embracing a left-wing vision of class struggle, saw class conflict as a form of irrationality that could be transcended by expertise. To quote Shenhav again:

Labor unrest and other political disagreements of the period were treated by mechanical engineers as

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## The implications of management theory were quite authoritarian.

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simply a particular case of machine uncertainty to be dealt with in much the same manner as they had so successfully dealt with technical uncertainty. Whatever disrupted the smooth running of the organizational machine was viewed and constructed as a problem of uncertainty.

As Hilaire Belloc said (*The Servile State*) of its Fabian counterparts in Britain, the mainline of the Progressive movement quickly accommodated itself to the impossibility of expropriating big business or the plutocratic fortunes and found that it could be quite comfortable as a junior partner to the plutocracy, directing its lust for regimentation against the working class:

Let laws exist which make the proper housing, feeding, clothing, and recreation of the proletarian mass be incumbent upon the possessing class, and the observance of such rules be imposed, by inspection and punishment, upon those whom he [the Fabian] pretends to benefit, and all that he really cares for will be achieved.

As Scott put it, the managerial classes' virtually unbounded planning instincts were directed mostly downward:

Every nook and cranny of the social order might be improved upon: personal hygiene, diet, child rearing, housing, posture, recreation, family structure, and, most infamously, the genetic inheritance of the population. The working poor were often the first subjects of scientific social planning. . . . Subpopulations found wanting in ways that were potentially threatening—such as indigents, vagabonds, the mentally ill, and criminals—might be made the objects of the most intensive social engineering.

Progressivism was a branch of what Scott called the “high modernist” ideology, which “envisioned a sweeping, rational engineering of all aspects of social life in order to improve the human condition.” High mod-

ernism carries with it an aesthetic sensibility in which the rationally organized community, farm, or factory was one that “looked regimented and orderly in a geometrical sense,” along with an affinity for gigantism and centralization reflected in “huge dams, centralized communication and transportation hubs, large factories and farms, and grid cities. . . .” If you’ve read H. G. Wells’s “Utopias” or looked at Albert Speer’s architecture, you get the idea.

High modernism was scientific, not scientific, based on, writes Scott, a “muscle-bound . . . version of the beliefs in scientific and technological progress” of the Enlightenment, centering on “a supreme self-confidence about continued linear progress . . . , the expansion of knowledge, the expansion of production, the rational design of social order, the growing satisfaction

of human needs, and, not least, an increasing control over nature (including human nature) commensurate with scientific understanding of natural laws.” The high priesthood of this ideology was precisely the same as Progressivism’s social base: “planners, engineers, architects, scientists, and technicians [high modernism] celebrated as the designers of the new order.”

One aspect of Scott’s analysis of high modernism, his use of the concept of *metis*, is especially relevant to us here. Scott’s book, more than any other I can think of, should be read as a companion to Hayek’s discussion of what’s variously called distributed, tacit, or idiosyncratic knowledge in “The Use of Knowledge in Society.” (As Hayek put it, this is the knowledge of circumstances necessary to make a decision that exists “solely as the dispersed bits of incomplete . . . knowledge which all the separate individuals possess.”)

Scott distinguished *metis* from *techné*, which is a body of universal knowledge deducible from first principles. *Metis*, in contrast, is (largely irreducible) knowledge acquired from practical experience, concerning the particular, the variable, and the local, and involving a “feel” for the unique aspects of situations obtained over a prolonged period.

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The Progressive movement found that it could be quite comfortable as a junior partner to the plutocracy.

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High modernism tended to see *metis* as an enemy and sought to supplant it by central schemes of planning and control, whether at the level of society as a whole through State social engineering or at the level of the firm by Taylorist managers.

High modernism, Scott writes, placed remarkably “little confidence . . . in the skills, intelligence, and experience of ordinary people.” The dispersed, local knowledge of the general population was, at best, to be patronized as prescientific and purified of its partial or local character by codifying it into a set of universal rules that could in turn be reduced to a verbal formula and transmitted as knowledge by the priesthood.

What we know as Taylorism is one facet of the larger high modernist project in this regard. One feature of high modernism, Scott notes, was “a narrow and materialist ‘productivism’ [which] treated human labor as a mechanical system which could be decomposed into energy transfers, motion, and the physics of work,” so that work could be simplified into “isolated problems of mechanical efficiencies” and brought under scientific control. Taylorism, in particular, attempted a “minute decomposition of factory labor into isolable, precise, repetitive motions.”

Taylor’s goal, in his own words, was for management to “assume . . . the burden of gathering together all of the traditional knowledge which in the past has been possessed by the workmen and then of classifying, tabulating, and reducing this knowledge to rules, laws, formulae. . . . Thus all of the planning which under the old system was done by the workmen, must . . . be done by management in accordance with the law of science.”

The idea was that understanding and decision-making should be divorced from the performance of tasks. The managerial caste determines “best practices” and breaks tasks down into the most efficient possible set of simple sub-processes, and workers perform the tasks as instructed without the intervention of critical thought.

But by its nature, Scott says, high modernism is reductionist or “schematic” and “always ignores essen-

tial features of any real, functioning social order.” Progressivism, as a high modernist ideology, makes no allowances for hidden knowledge.

In the case of Taylorism, this means that the suppression of *metis* sacrifices the distributed, job-related knowledge possessed by workers whose consideration is indispensable to any adequate governance of the production process. Taylorist management can no more render the production process amenable to central control without the dispersed knowledge of its workers than a central planning office can render a national economy transparent to its understanding and control.

According to David Noble (*Forces of Production*), large-scale computer numeric-controlled (CNC) machine tools were introduced in mass-production industry (first and most heavily in the military-industrial complex, mind you) as a way of supplanting *metis* with centralized control by managers and engineers, and of overcoming the knowledge rents inherent in distributed knowledge. The CNC tools were intended to shift the balance of power upward by putting production under the control of engineers and deskillng master machinists on the shop floor.

Unfortunately for this design, CNC machinery did not eliminate the need for *metis*. As Noble pointed out, management quickly found out that the only thing the machines could produce “automatically,” without ongoing worker intervention and concrete judgment, was scrap. When workers withheld their *metis* on a “work-to-rule” strategy, scrap rates went through the roof.

(Ironically, today we’re in the early stages of the shift of a great deal of manufacturing capability from mass-production industry to small job-shops—with small-scale CNC tools, in the latter, operated by skilled craftsmen.)

So it seems *metis* or distributed knowledge, in the end, is one of those stubborn traits of human action that outlasts all attempts to supersede it.




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High modernism  
treated dispersed,  
local knowledge as  
something to be at  
best patronized as  
prescientific.

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# End the IMF

BY SHELDON RICHMAN



The sex scandal involving the recently departed International Monetary Fund chief, Dominique Strauss-Kahn—criminal or not—was never a reason to abolish the agency. But then we didn't need another reason. The agency, centerpiece of J. M. Keynes's inflationary Bretton Woods brainchild, should never have been created in the first place, since it was another calculated step toward global government-controlled money. Its re-creation after its original mandate—maintaining the system of dollar-based fixed exchanges rates—became obsolete 40 years ago is a textbook case of bureaucratic mission creep. Its existence is no more justified by the new mission—a 911 for profligate, debt-ridden governments—than it was by the old one.

The IMF has 187 member governments, which together this year have provided \$340 billion to the agency. Each country is assigned a contribution quota and a vote count weighted roughly according to its quota. The U.S. government's financial quota is over 17 percent of the total, almost three times that of the second-largest contributor, Japan. It controls 16.74 percent of the votes. Treasury Secretary Timothy Geithner is the U.S. member of the board of governors, with Federal Reserve Chairman Ben Bernanke as alternate governor. This should be enough to establish that the IMF's agenda is not free markets.

All IMF money comes from the taxpayers and central bank printing presses. So there's the first charge against it: It's financed through compulsion. That should shape our expectations about the agency.



The IMF shouldn't exist, regardless of Dominique Strauss-Kahn's alleged actions.  
International Monetary Fund

What does the IMF do? Here's how it describes its mission:

- *Surveillance*: “oversees the international monetary system and monitors the financial and economic policies of its members”;
- *Technical assistance*: “assist[s] mainly low- and middle-income countries in effectively managing their economies”; and
- *Lending*: “provides loans to countries that have trouble meeting their international payments and cannot otherwise find sufficient financing on affordable terms.”

Regarding the first, the IMF has been notoriously bad at foreseeing crises. But that should not be surprising. Why would bureaucrats living rather well off the taxpayers, with no personal capital at risk, be expected to be competent at spotting economic trouble?

The promise of “technical assistance” is dubious and even risible because the dominant governments of the world can hardly be said to have “effectively” managed their own economies. The IMF often advises distressed countries to raise taxes and to cut government spending to reduce budget deficits, upsetting both Keynesians and supply-siders. This is regarded as market-oriented, or “neoliberal,” advice, but to the extent that externally imposed measures engender public resentment, they give real market reform a bad name and set back the cause of genuine liberalism.

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For example, the IMF may advise a government to remove price controls on food, which in itself would be a pro-market measure if accompanied by other reforms. However, if corresponding government-created scarcities—through licensing, franchises, patents, and so on—remain in place, average people will suffer and blame “the free market.” Food riots occurred some years ago in Egypt under just such circumstances, and as a result market reforms are widely distrusted there.

IMF loans constitute a double bailout. First, they save kleptocratic politicians from the consequences of their exploitative schemes, sparing them the necessity of radical reform—including land reform and free banking.

Second, IMF loans rescue the failing country’s *creditors*—Wall Street banks, typically—from a government default. In addition U.S. agricultural interests have come out in favor of increased support for the IMF to stimulate American farm exports. In 2009 the debate over increased U.S. funding was framed in the context of pushing an export-led American economic recovery.

This is surely doing well by doing good—with the taxpayers’ money.

Who pays? Aside from the taxpayers who supply the IMF with money, the tab is eventually paid by the working people of the subject countries through the higher taxes prescribed by the IMF.

The likelihood of the IMF’s compounding problems is immense. In *The White Man’s Burden*, former World Bank economist William Easterly writes: The IMF’s “core function of enforcing financial discipline is flawed by an intrusive Planner’s mentality that sets arbitrary numerical targets for key indicators of government behavior. Like all Planners, the IMF fits the complex reality of economic systems into a Procrustean bed of numerical targets that have little to do with that complexity.”

The IMF emphasizes that loans always come with “conditionality,” but for reasons already alluded to, that should offer little reassurance to advocates of free

markets. The agency notes that it uses the principle of “parsimony” when writing conditions: “program-related conditions should be limited to the minimum necessary to achieve the goals of the Fund-supported program . . . .” Thus the deepest violations of individual liberty and market principles—feudal land distribution, for example—will be left untouched. Real markets don’t exist when large tracts of land are controlled by a privileged elite, leaving most people little choice but to take whatever is given. Their acceptance may represent the “best available option,” but if their choice set has been artificially constricted, that’s not saying much. (Fortunately the informal economy offers some hope.)

IMF loans of course channel resources to central governments, reinforcing their power and further politicizing the “aided” countries. As P. T. Bauer wrote,

Foreign aid has thus done much to politicize life in the Third World. And when social and economic life is extensively politicized, who has the power becomes supremely important, sometimes a matter of life and death.

. . . People divert their resources and attention from productive activity into other areas, such as trying to forecast political developments, placating or bribing politicians and civil servants, operating or evading controls.

In the end the IMF has fostered long-term dependency, perpetual indebtedness, moral hazard, and politicization, while discrediting market reform and forestalling revolutionary liberal change. The solution is not for the IMF to impose free markets, even if it could. That would smack of imperialism and, writes Easterly, would have “patronizing echoes of the White Man’s Burden.”

The IMF should be scrapped and the people suffering under kleptocracy left to discover the requirements for improving their own conditions. How much more “help” can they stand?




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## IMF loans channel resources to central governments, reinforcing their power.

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# A Simple Solution

BY RICHARD W. FULMER

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*There is always an easy solution to every human problem – neat, plausible, and wrong.*

—H. L. Mencken

I have devised a simple plan for improving Americans' health by drastically reducing everyone's weight, thereby significantly increasing longevity and reducing medical costs. All we need to do is revalue the pound. Instead of a pound being 16 ounces, it will now be 32, cutting everyone's weight in half. We adjust our bathroom scales, our weights drop, and our health is improved.

Of course this "solution" rests on two fallacies. First, it conflates measurement with what is measured. Adjusting my bathroom scale does not change my weight, only my perception of my weight.

Second, the solution confuses cause and effect. My weight is not necessarily the cause of my health or lack thereof; in fact my weight may be caused by my ill health—an injury that keeps me from exercising or a thyroid condition, for example. More commonly, good health is the result of acting responsibly for many years: moderating calorie and alcohol intake, eating the right foods, engaging in regular exercise, getting quality dental and medical care. Such actions are likely to result in both moderate weight and good health. But I can no more make myself healthy by adjusting my bathroom scales than a doctor can cure a child's cold by adjusting the thermometer he uses to measure her fever.

The two fallacies are so obvious that no one could possibly fall for them, right? Sadly, no. Many brilliant people have fervently believed in nearly identical fallacies for decades and are even now basing our country's monetary policy on them.

Historian T. S. Ashton noted in his book *The Industrial Revolution, 1760–1830*:

If we seek—it would be wrong to do so—for a single reason why the pace of economic development quickened about the middle of the eighteenth century, it is to low interest rates we must look. The deep mines, solidly built factories, well-constructed canals, and the houses of the Industrial Revolution were the productions of relatively cheap capital.

John Maynard Keynes, making this same observation years before, concluded that simply by manipulating a country's money supply and financial markets to artificially produce low interest rates, "deep mines, solidly built factories, well-constructed canals and houses" would spring into being. But Keynes confused "cheap capital" with easy money. Capital—inventories, pre-consumer goods, and the methods and means of production—cannot be conjured into being by manipulating interest rates. They can exist

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Our monetary policy is based on a conflation of measurement with what is measured and confusion about cause and effect.

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only through production and saving (deferred consumption).

Capital goods can be relatively cheap only if they are relatively plentiful. Increasing capital, all else equal, will lower interest rates. But interest rates are more than just a measure of capital availability; they also reflect lending risk. Risk in turn can be affected by such things as inflation and the reliability and efficiency of transportation, communication, and capital markets.

A lender would hardly agree to make a \$100 loan unless he could reasonably expect to get at least \$100 in purchasing power in return. If the government is debasing the currency, loans will be made only if interest rates are higher than the anticipated rate of inflation.

### Costs and Lending Risks

Transporting goods by human or animal power is slow and costly. Sailing ships can carry far more goods far more quickly. Steam-powered ships are faster and more efficient still. Transportation costs, then, are inversely proportional to the level of technology. But costs also depend on the rule of law. When local chieftains can block mountain passes and extort steep tolls, or when highwaymen and pirates can exact their own tolls with impunity, transportation becomes risky and expensive. Conversely both transportation costs and lending risks are reduced if private property rights are respected and enforced.

Efficient capital markets foster trade by reducing transaction costs. Such markets depend on property rights and laws of exchange and on fast and reliable methods of communicating information such as prices, weather, and changing market conditions. Like trans-

portation, communication depends on the level of technology.

Low capital costs are the result of a lot of people acting responsibly for many years: sound currency, institutions protecting private property and preserving the rule of law, inventors devising new and useful products, entrepreneurs bringing those products to market and finding ever-more-efficient ways to satisfy customers, and individuals producing more than they consume and saving for the future.


### False Signals

Artificially low interest rates signal the existence of capital goods that were never actually created.

While these low rates may spark investment bubbles, the bubbles must eventually burst when competition for scarcer-than-expected capital goods, services, and labor drives prices up.

Manipulating markets through monetary policy devalues a nation's currency, destroys rather than secures

property rights, and does nothing to sustain the rule of law constraining both the rulers and the ruled.

The costs of fooling ourselves can be high. By readjusting my bathroom scale I disable an indicator that might warn me when I need to change my eating and exercise habits. By overriding market money prices we similarly deny ourselves important data about the country's fiscal health. Our weight and the real price of money are both valuable pieces of information providing vital feedback on our actions. Manipulating that feedback destroys the value of the information and, rather than giving us control, gives us only the illusion of control. 

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Manipulating  
feedback loops  
destroys the value of  
vital information.

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# The Many Monopolies

BY CHARLES JOHNSON

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**W**e libertarians defend economic freedom, not big business. We advocate free markets, not the corporate economy. And what would freed markets look like? Nothing like the controlled markets we have today. But how often do we hear mass unemployment, financial crisis, ecological catastrophe, and the economic status quo attributed to the voraciousness of “unfettered free markets”? As if they were all around us!

The crises laid at the feet of laissez faire are the crises of markets that are nothing if not fettered. When critics confront us with corporate malfeasance, structural poverty, or socioeconomic marginalization, we should be clear that market principles do not require defending big business at all costs, and that much of what our critics condemn results from government regulation and legal privileges. As a model for analyzing the political edge of corporate power and defending markets from the bottom up, we twenty-first-century libertarians might look to our nineteenth-century roots—to the insights of the American individualists, especially their most talented exponent, Benjamin Ricketson Tucker (1854–1939), editor of the free-market anarchist journal *Liberty*.

Conventional textbook treatments portray the American Gilded Age as one of relentless exploitation and economic laissez faire. But Tucker argued that the stereotypical features of capitalism in his day were products not of *the market form*, but of *markets deformed* by political privileges. Tucker did not use this terminology,

but for the sake of analysis we might delineate four patterns of deformation that especially concerned him: *captive markets*, *ratchet effects*, *concentration* of ownership, and *insulation* of incumbents.

## Types of Distortion

**C***aptive Markets.* Legal mandates and government monopolies produce captive markets in which customers are artificially locked in to particular services or sellers that they wouldn’t otherwise patronize because political requirements enforce the demand. For example, the car insurance market is shaped by laws requiring insurance and regulating the minimum service that must be purchased. Captive markets legally guarantee privileged companies access to a steady stock of customers, corralled by the threat of fines and arrest.

*Ratchet Effects.* Legal burdens, price distortions, and captive markets combine to ratchet up fixed costs of living far higher than would prevail in freed markets. To get by, people are constrained by the necessity of covering these persistent, inflexible costs—by selling labor, buying insurance, taking on debt—under artificially rigid circumstances. Ratchets keep many chasing the next paycheck, creating permanent states of financial crisis for the poor.

*Concentration.* Confiscation, regressive redistribution, and legal monopolies deprive workers of resources

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The crises laid at the feet of laissez faire are the crises of markets that are nothing if not fettered.

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while concentrating wealth and economic control within a politically favored business class. Struggling to cover ratcheted fixed costs, workers are dispossessed of the means to make an independent living and enter markets where ownership of land, capital, and key resources are legally concentrated in the hands of a few. Workers therefore depend on relationships with bosses and corporations far more than in freed markets, deforming economic activity into hierarchical relationships and confining rental economies.

*Insulation.* Captive markets and bailouts protect big players, while legal monopolies, regulatory barriers, and anticompetitive subsidies inhibit substitutes and competition from below. Government support props up big businesses, stifling the market and social pressures that might otherwise be brought to bear. Insulated businesses can treat employees and consumers with far less consideration or restraint; meanwhile, intervention shuts out alternative solutions by blocking smaller, grassroots, or informal competitors.

### Tucker's Big Four

We can, then, turn to Tucker's central idea: In "State Socialism and Anarchism" (1888), Tucker argued that "Four Monopolies" fundamentally shaped the Gilded Age economy—four central areas of economic activity where government ratchets, concentration, and insulation came together to deform markets into "class monopolies," regressively reshaping all markets as the effects rippled outward.

*The Land Monopoly.* Land titles in nineteenth-century America had nothing to do with free markets. All unoccupied land was claimed by government, whose military seized land from Indians, Mexicans, and independent "squatters." Government ownership and preferential grants monopolized access, excluding free homesteading. (The "Homestead Act," which supposedly opened Western lands to homesteading, really

imposed rigid legal limits on homesteaders that only certain medium-sized commercial farmers could effectively meet. Smaller farms and nonfarmers were excluded.) Tucker identified this concentration of land titles in elite hands as a "land monopoly," creating a class of privileged landlords by depriving workers of market opportunities to gain freeholds and escape rent.

Since 1888 the land monopoly has dramatically expanded. Governments worldwide have nationalized oil, natural gas, and water resources; in the United States mining rights and fossil fuel exploration are

largely accessed through government licenses, due to government's ownership of 50 percent of the American West. The cost of land is ratcheted and ownership concentrated through zoning codes, eminent domain, municipal "development" rackets, and local policies to keep real estate prices permanently rising. Freed land markets would feature more individual and widely dispersed ownership; land would be less expensive and more often held free and clear; vacant land would be more readily open to homesteading; and titles would be based as easily on sweat equity as on leveraged cash exchanges. Many people would no longer need to rent; those who chose to rent would find that competition

had dramatically improved the prices and conditions available on the market.

*The Money Monopoly.* For Tucker the most damaging of the Big Four was the Money Monopoly, "the privilege given by the government to certain individuals . . . holding certain kinds of property, of issuing the circulating medium," politically manipulating the money supply, prohibiting alternative currencies, and cartelizing banking, money, and credit. Tucker saw that monetary control not only secured monopoly profits for insulated banks, but also concentrated economic own-



Taxis, trains, and insurance: a totem pole of monopolization.

Herve Boinay [flickr]

ership throughout the economy, favoring the large, established businesses that large, established banks preferred to deal with.

Tucker identified the Money Monopoly as an economic force in 1888—before the Fed and fiat currency, the FDIC, Fannie, Freddie, the IMF, or trillion-dollar bailouts to banks “too big to fail.” Today regulatory cartels and political mandates have also captured insurance, alongside credit, savings, and investment, as a Money Monopoly stronghold, forcing workers into rigged markets while shutting out noncorporate, grassroots forms of mutual aid.

### Ideas and Extortion

*The Patent Monopoly.* Tucker condemned monopolies protected by patents and copyrights—“protecting inventors and authors against competition for a period long enough to enable them to extort . . . a reward enormously in excess of . . . their services.”

Since copying an idea does not deprive the inventor of the idea, or any tangible property she had before, “intellectual property” meant only a legal monopoly against competitors who could imitate or duplicate the monopolists’ products at lower cost.

“Intellectual property” (IP) has grown vigorously since 1888, as media, technology, and scientific innovation made control over the information economy a linchpin of corporate power. Monopoly profits on IP *are* the effective business model of Fortune 500 companies like GE, Monsanto, Microsoft, and Disney, which demand virtually unlimited legal power to insulate themselves from competition. Copyright terms quadrupled in length, while massive, synchronized expansions of intellectual protectionism became standard features of neoliberal “free trade” agreements” like NAFTA and KORUS FTA (United States–Korea Free Trade Agreement). In a freed market such business models would fall—and with them, the ratcheted costs consumers pay for access to culture, medicine, and technology.

*The Protectionist Monopoly.* Tucker identified the protectionist tariff as a monopoly in the sense that it insulated politically favored domestic producers from

foreign competition, and thus ratcheted up daily costs for consumers.

With the rise of multinational corporations and neoliberal trade agreements, tariffs have declined over the years. But the specific legal mechanism was less important to Tucker than the purpose of *controlling trade to insulate domestic incumbents*. In 1888 that meant the tariff. In 2011, it means a vast network of political controls used to manage the “balance of trade”: export subsidies, manipulation of exchange rates, and multigovernment agencies like the World Bank and IMF.

### Metastatic Monopolization

Tucker’s Big Four have only grown more pervasive since the 1880s. But the past century has also seen the metastatic proliferation of government regulatory bodies intended to restructure new transactions and capture new markets. Among today’s Many Monopolies, five are especially pervasive:

*The Agribusiness Monopoly* encompasses the New Deal system of U.S. Department of Agriculture cartels, surplus buy-ups, subsidized irrigation, export subsidies, and similar measures ratcheting up prices, distorting production toward subsidized crops, and concentrating agricultural activity in large-scale, capital-intensive monoculture.

These, inevitably enacted in the name of “small farmers,” invariably benefit large factory farms and agribusiness conglomerates like ADM and Tyson.

*The Infrastructure Monopoly* includes physical and communications infrastructure. Governments build roads, railways, and airports through eminent domain and tax subsidies, and impose cartelizing regulations on most mass transit. Restricted entry secures monopoly profits for insulated carriers; confiscating money and property to subsidize long-distance transportation and shipping creates tax-supported business opportunities for agribusiness, big-box chain retailers, and other businesses dependent on long-haul trucking. Incumbent telecommunications and media companies like AT&T, Comcast, and Verizon accumulate empires by cartelizing bandwidth; control of broadcast frequencies is con-

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Monopoly profits  
on IP *are* the  
effective business  
model of Fortune  
500 companies.

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centrated through the FCC's political allocation; and ownership of telephone, cable, and fiber-optic bandwidth is concentrated through local monopoly concessions for each medium.

*The Utility Monopoly* grants control over electricity, water, and natural gas to massive, centralized producers through comprehensive planning, subsidies, and regional monopolies. Household generation, polycentric neighborhood systems, or off-the-grid alternatives are crowded out or regulated to death.

## Regulatory Protectionism

**R**egulatory Protectionism may be the most widely dispersed of the Many Monopolies. Like Tucker's Protectionist Monopoly, it concentrates and insulates incumbent providers by creating hurdles for would-be competitors. Established businesses stifle competition from below by lobbying for regulatory red tape, extortionist fees, and complex licensing for everything from taxi-driving to hairdressing. Industry standards, which would otherwise be set by social convention and market experimentation, are removed from competition and determined by political pull. High compliance costs insulate incumbents who can afford them from competitors who cannot, shutting the poor out of entrepreneurial opportunities and independent livelihoods.

*The Health Care Monopoly* is a ripple effect of other monopolies but merits special notice because of the all-consuming growth of the medical sector and because health care and insurance so profoundly shape decisions about jobs, money, and financial planning. The central economic fact of health care is a crippling ratchet effect. Patent monopolies ratchet up drug costs and insulate profits for Pfizer and GlaxoSmithKline. The FDA and medical licensing provide a form of regulatory protectionism, constraining the supply of doctors,

hospitals, and pharmaceuticals, concentrating profits and further ratcheting costs. A medical need can become a catastrophic cost, effectively requiring comprehensive insurance. Workers once got insurance through fraternal mutual-aid societies, but money monopolies have now thoroughly corporatized the insurance market through subsidies, mandates, and regulatory control. Workers now are tethered to their employers by the cost of insurance "benefits," while facing the persistent danger of lost coverage, denied claims, and crippling debt.

Tucker's analysis of the Four Monopolies controlling the Gilded Age economy, supplemented with the new Big Five that our own era has introduced, goes a long way toward showing why existing markets work the way they work and fail for the people they fail for. It may also inspire some objections from today's libertarians.

The Many Monopolies deform markets toward stereotypically "capitalistic" business, but government intervenes in *more than one direction*. What about regulations or welfare programs to benefit poor people, or constraints on large, consolidated firms? These exist, but do not necessarily achieve their supposed aims. As shown

in Gabriel Kolko's *Triumph of Conservatism*, the Progressive regulatory structure and antitrust law, far from curbing big business, form the core of regulatory protectionism, *cartelizing* and *insulating* big business. There are also issues of priority and scale. While I object to SBA loans or TANF (Temporary Assistance to Needy Families) as much as any free-marketeer, in this age of trillion-dollar bank bailouts, even when government puts fingers on both sides of the scale, one finger is pushing harder than the other.

What about the explanations market economists offer for corporate firms' greater efficiency, based on division of labor, economies of scale, or gains from



Alternatives to massive, centralized utilities are crowded out by subsidies, regulations, and local monopolies.

Daniel Norwood [flickr]

trade? Wouldn't large corporations outcompete smaller rivals, even without subsidies and monopolies?

But Tucker didn't reject the division of labor, gains from trade, or large-scale production. Rather he suggested labor, trade, and scale *organized along different lines*. Independent contracting, co-ops, and worker-managed shops are forms of specialization and trade no less than centralized firms. Scale can be *internalized* through central management, or *externalized* through polycentric trade. A corporate economy is only one among many possibilities for dividing labor and exchanging values. The question is whether it predominates because of economic forces that would persist in markets free of structural privilege, or because of predicaments that would dissipate when competitors are free to offer alternatives with less centralization, less management, and *more* trade and entrepreneurial independence for ordinary workers.

If Tucker's analysis proves anything, it proves there are many places in economic life where ordinary people are given a hard shove toward spending money they'd rather not spend with trading partners they wouldn't otherwise keep. The most pervasive, far-reaching government interventions foster economic concentration, commercialization, hyperthyroidal scale, and the consolidated hierarchy needed to manage it—not because they grow naturally in market economies but because they grow out of control in the hothouse of socialized costs and inhibited competition.

### The Belt and the Bones

For most of the twentieth century American libertarians were seen as defenders of "capitalism" (though see Clarence Carson's doubts about that word in the 1985 *Freeman* article "Capitalism: Yes and No," [tinyurl.com/can2fl](http://tinyurl.com/can2fl)). Most libertarians, and nearly all their opponents, seemed to agree that libertarianism

meant defending business against the attacks of "big government," and the purpose of *laissez faire* was to unleash existing forms of commerce from political restraints.

This was almost a complete reversal from the attitude of traditional libertarians like Tucker, which we might call "free-market anti-capitalism." He was one of the best-known defenders of free markets in nineteenth-century America, happily summarizing his economic principles as "Absolute Free Trade . . . laissez-faire the universal rule." For Tucker, then, libertarianism meant an

attack on economic privilege by removing the *political* privileges that propped it up, dismantling monopolies by exposing them to competition from below.

The Many Monopolies are pervasive and fundamentally shape the everyday reality of the corporatist economy. So why then have not only the opponents *but also the advocates* of free markets so often missed Tucker's analysis, with Progressives constantly laying the blame for inequality, exploitation, and corporate power on "unregulated markets," while "pro-capitalist" libertarians respond by making excuses for the economic status quo? Paradoxically, it may be that Tucker's approach is forgotten partly because of the very *depth* and *pervasiveness* of the problems it identifies.

The interventions twentieth-century libertarians were most likely to identify and oppose—progressive taxes, welfare, environmental regulations—are *surface* interventions, economically speaking. While aiming to *reform* or *restrain* the corporate state-capitalist economy, they take its basic features—concentration, insulation, ratcheted costs, and corporate power—for granted, attempting only to contain their most unsightly downstream effects. Countervailing "Progressive" regulations are like a *belt* put on capitalism. A man may need a belt or he may look better without, but his body remains the same with or without the restraint.

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If Tucker's analysis proves anything, it proves there are many places in economic life where ordinary people are given a hard shove toward spending money they'd rather not spend with trading partners they wouldn't otherwise keep.

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The political means that consolidate the Many Monopolies do more than interfere in the outcomes of preexisting market structures. State-capitalist privileges shape basic patterns of ownership, access, and cost for essential goods and factors of production. They fundamentally *restructure* markets, *inventing* the class structures of ownership, ratcheted costs, and inhibited competition that produce wage labor, rent, and the corporate economy we face. These primary interventions are no *belt* for state capitalism to wear or take off; they are its very *bones*. Without them, what's left is not a different look for the same body—it's a totally different organism.

Because you wear a belt on the surface, it's easy to see and easy to imagine how you might look without it. Twentieth-century libertarians rightly condemned how the belt was hitched by government coercion—but rarely noticed that however much the anti-business belt constrains the state capitalist economy's natural shape, *without* the belt it is *still* a political product shaped by intervention to its pro-business bones. The Monopolies that *create* capitalists, landlords, and financiers and *uphold* corporate power are so deeply embedded in the existing economy, so entrenched in

consensus politics, it is easy to mistake them for business as usual in a market society.

We might say—with apologies to Shulamith Firestone—that the political economy of state capitalism is so deep as to be invisible. Or it may appear to be a superficial set of interventions, a problem that can be

solved by a few legal reforms, perhaps the elimination of the occasional bailout or export subsidy, while preserving intact the basic recognizable patterns of the corporate economy. But there is something deeper, and more pervasive, at stake. A fully freed market means liberating essential command posts in the economy from State control, to be reclaimed for market and social entrepreneurship. The market that would emerge would look pro-

foundly different from anything we have now. That so profound a change cannot easily fit into traditional categories of thought—for example “libertarian” or “left-wing,” “laissez-faire” or “socialist,” “entrepreneurial” or “anti-capitalist”—is not because these categories do not apply but because they are not big enough: Radically free markets burst through them. If there were another word more all-embracing than *revolutionary*, we would use it.

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Without these primary interventions, what's left is not a different look for the same body—it's a totally different organism.

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## The Cancer of Regulation

BY JOHN STOSSEL

Politicians care about poor people. I know because they always say that. But then why do they make it so hard for the poor to escape poverty?

Licensing, for example, prices poor people out of business.

Take taxis: in New York City, you have to buy a license, or “medallion.” New York restricts the number of medallions so tightly that getting one costs hundreds of thousands of dollars.

“There are not many black-owned taxis in New York City,” George Mason University economist (and *Freeman* columnist) Walter Williams told me. “But in Washington, most are owned by blacks.” Why? Because in Washington, “it takes \$200 to get a license to own and operate one taxi. That makes the difference.”

Regulation hurts the people the politicians claim to help.

People once just went into business. But now, in the name of “consumer protection,” bureaucrats insist on licensing rules. Today, hundreds of occupations require expensive licenses. Tough luck for a poor person getting started.

Ask Jestina Clayton. Ten years ago she moved from Africa to Utah. She assumed she could support her children with the hair-braiding skills she learned in Sierra Leone. For four years she braided hair in her home. She made decent money. But then the government shut her down because she doesn’t have an expensive cosmetology license that requires 2,000 hours of classroom time—50 weeks of useless instruction. The Institute for Justice (IJ), the public-interest law firm that fights such outrages, says “not one of those 2,000 hours teaches African hair-braiding.”

IJ lawyer Paul Avelar explained that “the state passed a really broad law and left it to the cosmetology board to interpret.”

Guess who sits on the cosmetology board. Right: cosmetologists.

And they don’t like competition.

One day, Jestina received an email.

“The email threatened to report me to the licensing division if I continued to braid,” she told me.

This came as a shock because she had been told that what she was doing was legal. Twice, in fact.

No customers complained, but a competitor did.

One cosmetologist claimed that if she didn’t go to school she might make someone bald.

But this is nonsense—hair-braiding is just . . . braiding. If the braid is too tight, you can undo it.

The cosmetology board told Jestina that if she wanted to braid hair without paying \$18,000 to get permission from the board, she should lobby the legislature. Good luck with that. Jestina actually tried, but no luck. How can poor people become entrepreneurs if they must get laws changed first?! Jestina stopped working because she can’t afford the fines.


“The first offense is \$1,000,” she said. “The second offense and any subsequent offense is \$2,000 each day.”

“It is not unique to Utah,” Avelar added. “There are about 10 states that explicitly require people to go get this expensive, useless license to braid hair.”

Fortunately, IJ’s efforts against such laws have succeeded in seven states. Now it’s in court fighting for Jestina, which, appropriately, means “justice” in her native language.

Once upon a time, one in 20 workers needed government permission to work in their occupation. Today, it’s one in three. We lose some freedom every day.

“Occupational licensing laws fall hardest on minorities, on poor, on elderly workers who want to start a new career or change careers,” Avelar said. “[Licensing laws] just help entrenched businesses keep out competition.”

This is not what America was supposed to be. 

*John Stossel hosts Stossel on Fox Business and is the author of Myths, Lies, and Downright Stupidity: Get Out the Shovel—Why Everything You Know is Wrong. Copyright 2011 by JFS Productions, Inc. Distributed by Creators Syndicate, Inc.*

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# Book Reviews

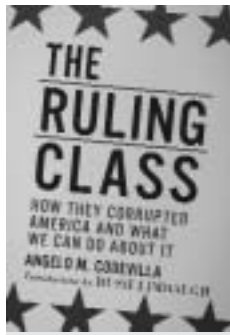
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## **The Ruling Class: How They Corrupted America and What We Can Do About It**

By Angelo Codevilla

Beaufort Books • 2010 • 160 pages • \$12.95

Reviewed by Gary Chartier



Class is a libertarian issue. Classical liberals Charles Comte and Charles Dunoyer pioneered class analysis before Karl Marx, and he gave them credit for doing so. Class was a central feature of the work of such libertarian stalwarts as Franz Oppenheimer, Albert Jay Nock, and Frank Chodorov, former editor of

*The Freeman*. Class theory formed the heart of libertarian Carl Oglesby's *The Yankee and Cowboy War*. Class analysis lies at the heart of much of the revisionist history practiced by libertarians like Murray Rothbard. And class analysis has continued to be an aspect of the work of such scholars as Hans-Hermann Hoppe and Roderick Long.

Libertarian class theory understands stratification as rooted in aggression—especially the aggression of the State. In a market free from politically secured privilege, it is difficult for people to amass and keep great wealth. Unfortunately some people improve their economic positions by stealing land and other property (often in partnership with the government or with its blessing) and by using their wealth to obtain privileges from the government—monopoly power, for example—that enable them to further increase their holdings. Some people who may have become wealthy through voluntary exchange go on to use their wealth to secure privileges from the State. And some people who have acquired governmental office use their positions to do the bidding of the wealthy or to enter the ranks of the wealthy themselves. From a libertarian perspective those overlapping groups make up the ruling class.


Angelo Codevilla's *The Ruling Class* initially seems to echo this libertarian analysis. America's class structure, he says, is reflected in the fact "that big business, big government, and big finance are linked as never before and that ordinary people are more unequal than ever." He argues that the Ruling Class (his capitals) comprises those, "whether in government power directly or as officers in companies," whose "careers and fortunes depend on government." The Ruling Class, Codevilla argues, enjoys the political support of perhaps one-third of the population. That third is, roughly speaking, socio-culturally "liberal" and, according to Codevilla, enthusiastic about expert management. (A disproportionate number of technocratic managers belong to it.)

The interests of the Ruling Class are sharply at odds with the two-thirds of Americans Codevilla calls "the Country Class," or the "Country Party." The key characteristics of this group are its members' (conservative) attitudes toward "marriage, children, and religious practice." They believe in human equality; thus, they oppose the authority of paternalistic experts and value the independence of civil society.

It seems clear that people can value equality of authority, appreciate civil society, and oppose managerialism without embracing conservative views of religion and the family. But Codevilla seems to suppose that cultural identity has as much to do with the membership and agenda of the Ruling Class as political and economic power—if not more. In fact, though, America's rulers seem primarily interested in extracting wealth at gunpoint (in subtle and not-so-subtle ways)—at home and around the world. And achieving that goal is quite compatible with holding a range of beliefs about religion, marriage, children, and related matters.

Even if he's wrong about the relationship between class politics and the culture war, Codevilla is absolutely right that the real Ruling Class, the elite that holds the reins of power, needs to be unseated. As a strategy for change he suggests that the Country Class organize a political movement of its own. But he realizes that such a movement, even if successful, would face severe challenges. Most important: How would it avoid becoming entrenched and oppressive itself?

If the penchant for power is simply a product of Progressive managerialism, perhaps government officials with the right values could turn the machinery of the State around. But if the people who run the State are almost unavoidably going to be members of the power elite, if the power elite can exert pressure on the State that others cannot, and if the kind of person likely to become a government official is almost certainly more ambitious and thus less principled than the average person, a simple replacement of personnel won't do the trick.

The managerial technocrats who do the bidding of the Ruling Class may come disproportionately from a particular cultural subgroup (though Codevilla offers no real evidence that they do). But the division that matters most is between those who deploy or reap massive profits from aggressive force and those who are the victims of that force. 

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## Neoconservatism: An Obituary for an Idea

by C. Bradley Thompson with Yaron Brook  
Paradigm • 2010 • 256 pages • \$28.95

Reviewed by George Leef



It has always been hard to pin down just what “conservatism” stands for, what with people of such widely divergent views as Barry Goldwater, Jerry Falwell, and both George Bushes described by that term. The relatively recent addition to the political lexicon of “neoconservatism” complicates matters further. What do “neocons” believe? Where do their ideas come from? If they obtain political power, what can we expect?

To find answers to those questions, I strongly recommend *Neoconservatism: An Obituary for an Idea*. In it, authors C. Bradley Thompson of Clemson University and Yaron Brook of the Ayn Rand Institute dig through the words of neocon politicians like John McCain, the

writings of neocon strategists like Irving Kristol, William Kristol, and David Brooks, and ultimately to the wellspring of the neoconservative movement, University of Chicago professor Leo Strauss. What readers discover is that neoconservatism is a strikingly authoritarian movement with scant regard for individual rights. Neoconservatives aren't concerned with individuals, the authors contend, but want to build cohesion—even if it requires great Machiavellian deception of the people—in pursuit of “national greatness.” Life, liberty, and property are all at the mercy of whatever politicians the neocon intelligentsia manages to elect.

“The neocons,” the authors write, “might be best described as cautious or pragmatic liberals in that they think reform should be modest, slow, and experimental, and that it should be devised in such a way that it relies more on traditional social values . . . than on bureaucratic authority and ideological dogmas.” But while neocons are thus *tactically* at odds with the headlong statism that dominates the Democratic Party, they are *strategically* at odds with Americans who want to downsize the State. In one of the book's most memorable phrases, we learn that neocons believe that “leave us alone is not a governing philosophy.” That is, they want to use governmental power, not dismantle it. They abhor the idea of people telling government officials, “You have no moral or constitutional right to dictate my life.” Neocons, Thompson and Brook contend, are sharply opposed to the philosophy of the American founding, a fact they obscure behind rhetorical smoke-screens.


So if the neocons are against Obama-style statism but also against libertarianism, what are these supposedly pragmatic people for? And why? Much of the book is devoted to teasing out those surprisingly difficult answers. The authors trace the movement back to Strauss, a political philosopher who was captivated by the ancient Greek idea that individuals fulfill their purpose by working and sacrificing for the good of the city-state. Strauss took Plato to heart, arguing that the people should be subservient to the greater collective, and while the connections to Strauss aren't always perfectly clear, present-day neocons adopt that same belief. Instead of worrying about governmental intrusions against individual liberty, neocons are animated by a

desire to grasp power for malleable, big-government Republicans such as McCain, then use the levers of power for what they think are “good” national goals.

What kinds of goals? That is left vague because, lacking true principles, neoconservatism leaves it up to political leaders under the sway of neocon thinkers to decide what our national goals should be. “Nation building” in places like Iraq and Afghanistan certainly qualifies. The neocons realized that the 9/11 attacks provided the ideal excuse to tear Americans away from their petty personal lives and dragoon them into a crusade against international terrorism. In that, the neocons show their allegiance to expansionist presidents of the past, like Teddy Roosevelt and Woodrow Wilson, who gloried in the use of military power abroad.

Since they lack a core philosophy, however, how can the neocons argue with those who wish to use government power for different kinds of “national greatness” projects? They can’t have any principled objection to a party that pledges national greatness through deep environmentalism, for example. (The neocons have so far opposed the wild-eyed environmentalists but it’s not clear why “green” central planning is necessarily inconsistent with their belief system.) They might scheme to keep such a party out of power, but what if they fail? It seems not to worry the neocons that the power they covet and seek to expand will certainly fall into “bad” hands at some point.

All in all, neoconservatism turns out to be another of those foolish movements that seek to commandeer the liberty, property, and even the lives of ordinary people so that “great men” might use them in pursuit of their dreams. Obviously it doesn’t bother the neocons that when they exert their will over the rest of us, millions of individual, peaceful plans and projects are wiped out. When the State sucks in resources for “national greatness,” less is left for business growth, charitable operations, and other voluntary activities. The neocons seem to care about that just as much as, oh, Napoleon did.

Let’s hope that this book really is neoconservatism’s obituary. 

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## Lysander Spooner: American Anarchist

by Steve J. Shone

Lexington Books • 2010 • 138 pages • \$55.00

Reviewed by Carl Watner



It was in the early 1970s that I first learned of Lysander Spooner’s ideas. The six volumes of his *Collected Works*, which were published in 1971 and which I purchased soon thereafter, played an important part in my intellectual development as a voluntarist. I was the person who in 1976 unearthed Spooner’s essay “Vices Are Not Crimes,” and I was the first to mark Spooner’s unidentified grave with a bronze plaque.

For those neophytes who have never heard of Spooner, let me simply quote Murray Rothbard’s description from the September 1974 *Libertarian Forum*: “[H]e was undoubtedly the only constitutional lawyer in history to evolve into an individualist anarchist,” and “of all the host of Lockean natural rights theorists, Lysander Spooner was the only one to push the theory to its logical—and infinitely radical—conclusion: individualist anarchism.”

The table of contents of Steve Shone’s book outlines the major areas of political philosophy and economics about which Spooner wrote: Natural Law, Private Mail, and Property; Poverty and Economics; Political Obligation; Jury Nullification; Slavery; and Religion, Morality, and the Legal Profession.

Spooner’s concern with natural law and justice manifested itself in his lifelong arguments against slavery; government monopolization of money, credit, and the post office; government licensure of lawyers and restrictions on juries; taxation; seizure and confiscation of private property; and government interference with the natural laws of intellectual property.

Just one example will suffice to demonstrate Spooner’s unique interpretation of the U.S. Constitution and the natural right of human beings to use their property peacefully as they see fit. Before Spooner’s own private postal delivery company was harassed and put out of business by federal authorities in 1844, he

published “The Unconstitutionality of the Laws of Congress Prohibiting Private Mails.” In it he noted that the Constitution did not grant Congress a sole and exclusive right to establish post offices and post roads. In other words, the power given to Congress did not allow it “to forbid similar establishments by the States or the people.”

Furthermore, Spooner noted that no branch of the government had ever questioned the right of American citizens to mint their own gold coins so long as they did not attempt to imitate current coins of the United States. Spooner argued it was just as much a common-law right to deliver private mail entrusted to one’s care as it was a right “to weigh and assay pieces of gold and silver, mark upon them their weight and fineness, and sell them for whatever they bring, in competition with the coin of the United States.”


Although the author bills his work as “the first full-length work devoted to the ideas of Lysander Spooner,” Spooner’s writings are so extensive and comprehensive that some of his most important commentaries are not mentioned. One, reminiscent of Spooner’s famous *No Treason* series, is the appendix to his 1852 book, *Trial By Jury*. This short, seven-paragraph addendum epitomizes Spooner’s outlook on the nature of government, even before the citizens of the southern states were beaten into submission by federal armies and navies. Spooner wrote:

It was a principle of the Common Law . . . that no man can be taxed without his personal consent. The Common Law knew nothing of that system . . . of *assuming* a man’s own consent to be taxed, because some pretended representative, whom he never authorized to act for him, has taken it upon himself to consent that he may be taxed. . . .

. . . Taxation without consent is as plainly robbery, when enforced against one man, as when enforced against millions; . . . Taking a man’s money without his consent, is . . . as much robbery, when it is done by millions of men, acting in concert, and calling themselves a government, as when it is done by a single individual, acting on his own responsibility, and calling himself a highwayman. Neither the numbers engaged in the act, nor the different char-

acters they assume as cover for the act, alter the nature of the act itself. . . .

. . . The government’s pretence of protecting him, as an equivalent for the taxation, affords no justification. It is for himself to decide whether he desires such protection as the government offers him. If he do not desire it, or do not bargain for it, the government has no more right than any other insurance company to impose it upon him, or make him pay for it.

For anyone interested in the antecedents of contemporary libertarianism and individualism, *Lysander Spooner: American Anarchist* is a good place to start. Be prepared to meet a man whose ideas are radical. 

*Carl Watner (editor@voluntaryist.com) is editor of The Voluntaryist, which he has published since 1982.*

### The Struggle to Limit Government: A Modern Political History

by John Samples

Cato Institute • 2010 • 340 pages • \$24.95

Reviewed by Greg Kaza



Today’s most crucial policy battles are about federal spending and the scope of government power. Cato Institute scholar John Samples reminds us in this book that those battles have their origins in the Progressive era, the New Deal, and the Great Society.

Early in the twentieth century Herbert Croly (cofounder of *The New Republic*) argued the State should “increase the national spirit,” “promote the national welfare,” and subordinate “the individual to the demand of a dominant and constructive national purpose.” In that spirit Franklin Roosevelt created Social Security and unemployment compensation in the 1930s, programs hard to undo, grounded as they are in the self-interest of voting blocs, including seniors and labor. In 1965 Lyndon Johnson established Medicare and Medicaid to provide medical insurance for retired and low-income people, who eventually

viewed them as entitlements. Medicare recipients alone, Samples notes, constituted about one in five voters by 1982.

Ronald Reagan's proposed spending cuts had little support in Congress even among Republicans, a development that continued post-1994 under GOP House Speaker Newt Gingrich. Republicans in power failed to abolish any federal departments, and President George W. Bush created a new Medicare prescription drug program. "The new entitlement appeared to be politically perfect," Samples observes. "It promised benefits to virtually every organized interest, including the most powerful, elderly voters, without immediately imposing costs on anyone." This is how federal spending, deficits, and the national debt expand.

Samples examines recent administrations' fiscal records and draws lessons for today. Reagan "sought to control spending later by cutting taxes first" but did not deliver a significant reduction in the size of government as measured by spending. While FDR and LBJ told Americans the State could provide them with security and opportunity, Reagan asked whether government might also threaten liberty, opportunity, and wealth. Still, government continued to grow.


George W. Bush by contrast sought to save us all from moral decay at home and from political tyranny abroad. He had almost no interest in slowing the growth of government but made one effort—to slow the exponential expansion of Social Security. That was a failure, and Samples argues it was due to Bush's unpopularity over his military adventure in Iraq. A president who enjoyed the trust and support of only a minority of Americans could hardly transform public opinion on such a crucial issue. Besides, Bush embraced "compassionate conservatism" and increased government spending, both of which contravened personal responsibility.

Rather than trying to stop the growth of government, Bush worked hard to increase it by pushing the Medicare prescription drug entitlement. Many voters favored that, yet dissatisfaction greeted the new benefit. Why? Samples argues two-thirds of voters, not just the

elderly, took an unfavorable view because "it did not provide people on Medicare enough help with their drug costs." Bush proposed \$400 billion, Democrats countered with \$800 billion, and they compromised on \$500 billion. This bidding war for votes with tax dollars shows why the battle to restrain government has so far been a losing one.

How can we put the brakes on government growth? In a word: crisis. Samples's most useful insight is that a crisis can catalyze policy change, toward either bigger or smaller government. FDR capitalized on the crisis of the Depression to greatly expand the size and scope of government. Congress's failure to deal with entitlements and end record deficits has created a new crisis, which means that a future president will have the opportunity to act dramatically. Maybe that president will use the opportunity to make it clear to the people that mushrooming government spending and interference with liberty are the causes of our crisis. We might be able not just to shift course slightly but to turn the ship around.

Samples makes a strong case for individual liberty and constitutional government that should persuade people that their future happiness depends on finally putting limits on the State. The difficulty, he writes, is that "Almost all of the past 30 years in American politics suggests the federal government will continue to prefer borrowing to tax increases or spending cuts until an upper bound on borrowing is reached." With a national debt over \$14 trillion and talk about lowered ratings for federal bonds, we may be close to that upper bound.

The book provides a sober analysis of past defeats suffered by limited government advocates, but it also suggests that if we don't let the building fiscal crisis "go to waste," we can prevail. A popular president, mindful of both the Constitution and the key role of individualism, could lead Congress to deal with the entitlements that threaten America's fiscal house. In sum, Samples's work serves as an antidote to despair. 

*Greg Kaza (kaza@arkansaspolicyfoundation.org) is executive director of the Arkansas Policy Foundation.*



## Forked-Tongued Washington Government

BY WALTER E. WILLIAMS

The Sherman Antitrust Act of 1890 was the first federal statute to limit cartels and monopolies and still forms the basis for most antitrust litigation by the Department of Justice.

The Act contains two important provisions. Section 1 outlaws contracts and conspiracies in restraint of trade. Section 2 prohibits monopolization and attempts to monopolize.

Most people have a knee-jerk response to monopoly and collusive agreements and condemn such behavior out of hand. Before making a broad condemnation, we might consider the behavior more generally. The Bible's book of Exodus gives us the Ten Commandments. The first two, and presumably most important, are: "Thou shalt have no other gods before me," and "Thou shalt not make unto thee any graven image, or any likeness of anything that is in heaven above, or that is in the earth beneath, or that is in the water under the earth. Thou shalt not bow down thyself to them, nor serve them: for I the LORD thy God am a jealous God." These two commandments establish God as a monopoly and to reinforce the monopoly, there shall be no God-substitutes. I do not think that many would condemn Christianity on the basis of its monotheism.

Another area of monopoly and collusion is marriage. The marriage license is in fact a collusive monopoly contract between two persons that closes—or at least is supposed to close—further competition.

The monopolistic and collusive characteristics of religion and marriage emerge naturally and benefit society. Therefore, we are faced with the question of

what kinds of monopoly and collusion we would wish to restrain. I would venture to suggest that government-coerced and -encouraged monopoly and collusion should be restrained. Moreover, if the Department of Justice were really serious about Sherman antitrust provisions, it would focus on Washington as the main source of collusion in restraint of trade.

One of the most egregious examples of conspiracy and monopoly in the restraint of competition are Private Express Statutes. These are a set of civil and criminal federal laws that outlaw the delivery of first-class mail by all entities other than the U.S. Postal Service. As such they represent government coercion that bans peaceable, voluntary exchange in the delivery of first-class mail. Aside from the well-documented inefficiencies of the Postal Service, the postal monopoly should be condemned on that basis.

The U.S. Department of Agriculture (USDA) establishes fruit and vegetable marketing orders and milk marketing orders with the stated purpose of balancing the products' availability with an adequate return to producers and the needs of consumers. Federal marketing orders are locally administered by committees of producers. Initiated by industry and enforced by the USDA, they bind an entire industry in a geographical area.

For example, there's the Navel Orange Administration, in which growers get together and establish citrus production quotas in California and Arizona. Any citrus



Government-backed marketing boards control oranges and other crops.

Jennuine Captures [flickr]

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grower exceeding his market quota by bringing too much to market and threatening to lower prices faces fines and imprisonment. This collusion applies to nearly all commercially produced fruits and vegetables. The effect of market quotas is to generate prices that are higher than they would be without the government-backed collusion.

Mandated maximum quantities and/or minimum prices are surefire indicators of seller collusion in restraint of trade. An example of the latter is minimum wage law. The effect of a minimum wage is discriminating against low-skilled workers. What employer would find it profitable to pay the mandated wage of \$7.25 to a worker capable of producing only \$4 or \$5 an hour?

The minimum wage can be used as a tool of collusion. For some activities low-skilled workers are a substitute for higher-skilled workers. Imagine that 100 yards of fencing could be produced per day either by employing three low-skilled workers at \$13 each or one high-skilled worker at \$38. A profit-motivated employer would hire the high-skilled worker because it's cheaper. If the high-skilled worker demanded \$50 a day, the employer would replace him with the three low-skilled workers. But suppose the high-skilled worker could lobby Congress to enact a \$20-a-day minimum wage in the fencing industry. Now using the three low-skilled workers would cost \$60. Thus the probability of the high-skilled worker getting \$50 would be greater because he has been able to use government to price his competition out of the market.

The Davis-Bacon Act is a 1931 federal law that mandates that "prevailing wages" be paid on all federally financed or assisted construction projects. As such it is a union-supported super-minimum wage law. Its stated intention—as seen in the 1931 congressional testimony supporting the Act—was to price black workers out of the market. Representative Clayton Allgood of Alabama said, "Reference has been made to a contractor from Alabama who went to New York with bootleg labor. This is a fact. That contractor has cheap colored

labor that he transports, and he puts them in cabins, and it is labor of that sort that is in competition with white labor throughout the country. This bill has merit, and with the extensive building program now being entered into, it is very important that we enact this measure."

Representative John J. Cochran of Missouri voiced similar sentiments, saying he had "received numerous complaints in recent months about southern contractors employing low-paid colored mechanics getting work and bringing the employees from the South." AFL President William Green made clear the unions' interests: "Colored labor is being sought to demoralize wage rates [in Tennessee]."

The Davis-Bacon Act remains on the books today.

The political rhetoric in support of the Act has changed but its effects have not. It remains an ongoing collusion against lower-skilled, non-union construction workers.

Just about every cabinet-level federal agency enforces some kind of collusive restraint on competition. Without government support, collusion has a tendency to break down primarily because what is in

the best interests of an individual colluding member is not necessarily in the best interests of other members. For example, it pays a member to cheat on the agreement by, say, shading his price a bit to get more business. The members who abide by the agreement will find themselves losing business, and before long they will start cheating. The cheating becomes infectious, and the collusion breaks down. But if a federal law fixes the terms of the collusion, then to violate the terms is not simply a violation of a gentlemen's agreement; it's also a violation of the law, with the possibility of fines and imprisonment. In other words, effective collusion needs some kind of enforcement technique. Most often it is the threat of sanctions for noncompliance.

The bottom-line reality is that collusive monopolistic restraints on competition are deemed illegal and hence prosecutable only if the seller does not first secure Washington's permission to rip off his fellow man.

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