The Free Market

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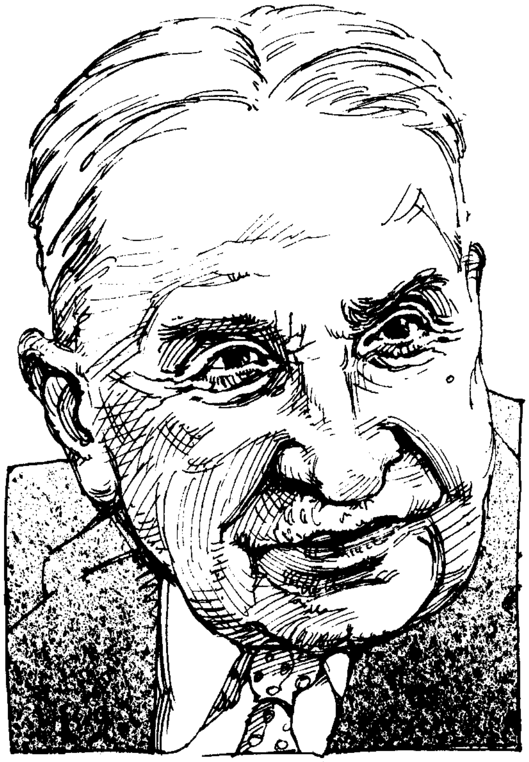

This drawing of Ludwig von Mises by Joe Dinicola appeared recently in Financial Planning *magazine.*

How Government Intervention Plagued Our 19th-Century Economy

by Lawrence W. Reed

The recessions and depressions of the 19th century are often cited as proof of the "inherent instability" of the free market. (Indeed, the promoters of the Federal Reserve System in 1913 argued for a central bank as a way of preventing future downturns!) This is, of course, a bum rap.

The 1800s were freer than today, but there was more than enough government intervention to cause serious setbacks in the economy. And Austrian trade cycle theory explains exactly how.

The source of the business cycle, Mises discovered, is government-engineered expansion of money and credit. Such a policy artificially depresses interest rates at first, deranges the structure of production by generating unsustainable malinvestments, and inevitably leads to contraction and painful readjustments.

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The Specter of Airline Re-Regulation

by Murray N. Rothbard

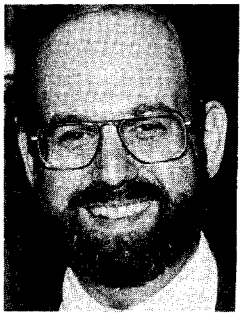
Empiricism without theory is a shaky reed on which to build a case for freedom. If a regulated airline system did not "work," and a deregulated system seemed for a time to work well, what happens when the winds of data happen to blow the other way? In recent months, crowding, delays, a few dramatic accidents, and a spate of bankruptcies and mergers among the airlines have given heart to the statists and vested interests who were never reconciled to deregulation. And so the hue and cry for re-regulation of airlines has spread like wildfire.

Airline deregulation began during the Carter regime and was completed under Reagan, so much so that the governing Civil Aeronautics Board (CAB) was not simply cut back, or restricted, but actually and flatly abolished. The CAB, from its inception, had cartelized the airline industry by fixing rates far above the free-market level, and rationed supply by gravely restricting entry into the field and by allocating choice routes to one or two favored companies. A few airlines were privileged by government, fares were raised artificially, and competitors either prevented from entering the industry or literally put out of business by the CAB's refusal to allow them to continue in operation.

One fascinating aspect of deregulation was the failure of experts to predict the actual operations of the free market. No transportation economist predicted the swift rise of the hub-and-spoke system. But the general workings of the market conformed to the insights of free-market economics: competition intensified, fares declined, the number of customers increased, and a variety of almost bewildering discounts and deals pervaded the airline market. Almost weekly, new airlines entered the field, old and inefficient

(Continued on page three)

INSIDE



From the President

by Llewellyn H. Rockwell, Jr.

Volume II of *RAE* and What It Means

Volume II of *The Review of Austrian Economics* is just off the presses. This refereed academic journal—the first in history devoted to Austrian economics—has already had much influence for good.

Lexington Books, the publishers, decided to make Volume I a hardback rather than the normal paperback in part because they were convinced it would get heavy use by faculty, students, and academic libraries. And they were right (Volume I went into a second printing). Anyone doing research in Austrian economics consults the *RAE*. So, appropriately, the 287-page Volume II is a hardback as well.

It took three years to get the journal under way, against anti-Misesian opposition. (Academic politics makes Congress look large-minded and benevolent.) Of course, Mises himself faced continuous hostility. But regardless of all that, the *RAE* is now well established. And as we prepare for Volume III, we are laying groundwork for a twice-yearly and then quarterly journal.

Looking over the Institute's many areas of educational activism, it's hard to pick the most important. But certainly *The Review of Austrian Economics* is essential. And there is nothing remotely like it.

Congratulations, on a hard and *very* important job well done, to our editor, Murray N. Rothbard; our co-editor, Walter Block; our editorial board and referees; our authors; our managing editor, Judy Thommesen; and—most of all—the Institute contributors who made this landmark in Austrian economics possible. Without them, there would be no journal. And no Institute. ■

Note: Please see the enclosed form for information on receiving the new *RAE*.

10th Anniversary of the *AEN*

The Autumn 1987 issue of the Institute's *Austrian Economics Newsletter* marks the 10th anniversary of this quarterly.

Founded by the Center for Libertarian Studies, the *AEN* was turned over to the Mises Institute "because it is the world focus for Misesian thought and work," said CLS president Burt Blumert.

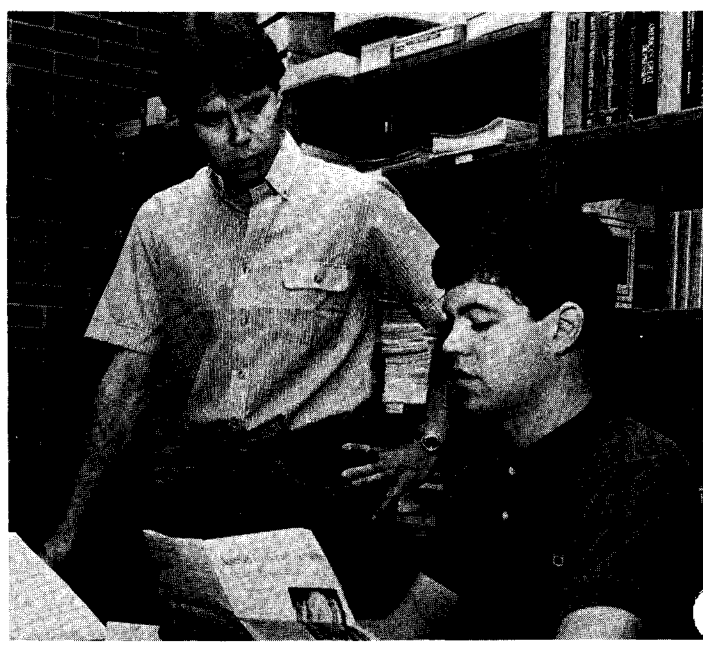
The extra-large 10th anniversary issue contains an interview with Nobel laureate (and Austrian fellow-traveler) James Buchanan, a revisionist view of Adam Smith by Murray N. Rothbard, an article on the minimum wage by W.H Hutt, an essay on deficits by Don Boudreaux, and an exchange on hermeneutics featuring Peter Boettke, David Gordon, and Steve Horwitz. The issue also includes a ten-year index.

Ten years ago, the *AEN* was one of the few things keeping "sane" economics alive, and it helped spark the revival that Austrian economics is now beginning to enjoy.

The *AEN* editorial "alumni" list is an impressive one. Former graduate students now teaching include: Don Boudreaux, George Mason University; Tyler Cowen, University of California, Irvine; Richard Ebeling, University of Dallas; Roger Garrison, Auburn University; Sandford Ikeda, California State University, Hayward; Roger Koppl, Auburn University; Richard Langlois, University of Connecticut; Don Lavoie, George Mason University; Mario Rizzo, New York University; Joseph Salerno, Pace University; and Lawrence White, New York University.

Now edited by Mark Thornton, academic coordinator of the Institute's Auburn office, the *AEN*'s associate editors include Institute graduate students: Mark Hughes (George Mason), John McCallie (Auburn), Maria Minniti (Auburn), Parth Shah (Auburn), Thomas Speaks (Washington), Sven Thommesen (UCLA), and Jeffrey A. Tucker (George Mason).

Subscriptions to the *AEN* are free to students, faculty, and Institute Members. If you would like to receive copies, please check the appropriate box on the enclosed form. ■



Don Boudreaux, assistant professor of economics at George Mason University and a former Mises Fellow, talks with Mark Thornton, editor of the Austrian Economics Newsletter.

Airline Re-Regulation...from page 1

...from page 1

lines went bankrupt, and mergers occurred as the airline market moved swiftly toward efficient service of consumer needs after decades of stultifying government cartelization.

So why, then, the current wave of agitation for re-regulation? (Setting aside the desire of former or would-be cartelists to rejoin the world of special privilege.) In the first place, many people forget that while competition is marvelous for consumers and for efficiency, it provides no rose garden for the bureaucratic and the inefficient. After decades of cartelization, it was inevitable that inefficient airlines, or those who could not adapt successfully to the winds of competition, would have to go under, and a good thing, too.

The shakeout and the mergers have also revived an ancient fallacy carefully cultivated by would-be cartelists. There is already a mounting hysteria that the number of airlines is now declining, and that we are therefore "returning" to the "monopoly" or quasi-monopoly days of the CAB. Is not a new CAB needed to "enforce competition"? But this ignores the crucial difference between monopoly or large-scale firms created and bolstered by government privilege, as against such firms that have earned their position and are able to maintain it under free competition. The government-maintained firms are necessarily inefficient and a burden on progress; freely-competitive "monopoly" firms exist by virtue of being more efficient, providing better service at lower rates, than their existing or potential competitors. Even if the absurd fantasy transpired that only one [U.S., presumably not world-wide] airline emerged from free competition, it would *still* be vital to avoid any governmental interference with such a free-market firm.

Note, in short, what the pro-cartelists are saying: they are saying that it is vital for the government to impose a coercive, inefficient monopoly *now* to avoid the shadowy possibility of an efficient, freely-competitive monopoly at some future date. Looked at this way, we can see that the call for re-regulation and cartelization makes no sense whatever except from the viewpoint of the cartelists.

Quite the contrary; it is now important to extend deregulation to the European sphere and end the international cartel of IATA, which has crippled intra-European travel and kept airline fares outrageously high.

What of the other unwelcome consequences of deregulation: crowded planes, delays, accidents? In the first place, as is typical, competition has led to lower fares and therefore brought airline travel into the mass market far more than before. So this means that those of us who used to fly on planes half or quarter-filled with business travelers now have to face flights on totally filled planes stocked with students, ethnics carrying all their possessions in paper bags, and squalling babies. But if deregulation has ended the gracious days of yore by making air travel more affordable, those of us who wish to restore that epoch will simply have to pay for the gracious amenities by traveling first class or chartering our own planes.

Delays, accidents, and near-accidents are another story completely. They are only "caused" by deregulation in the sense that air travel has been stimulated by free competition. The increased activity has run up against bottlenecks caused not by freedom but by government, and these unfortunate remnants of government have been causing and intensifying the problems.

There are two major difficulties. One is the fact that there are no privately-owned and operated commercial airports in this country; all such airports are owned by municipal governments [except the worst run, Dulles and National, owned and run by the federal government]. Government runs airports in the same way it runs everything else—badly. Specifically, there is no incentive for government to price its services rationally. In consequence, government airports price their major service, runways for landing and takeoff, way below the market price. The result is overcrowding, shortages of runway space at prime time, and a rationing policy by the airports to provide a first-come first-served policy which virtually insures circling and aggravating delays. A privately owned airport would price runways rationally, to maximize its income, raising prices, especially at peak hours, and allowing airlines to purchase guaranteed time slots and push the far less revenue-productive private planes out of the runways in prime time. But government airports have failed to do so, and continue subsidizing runway prices, in deference to the politically powerful lobby of private plane owners.

The second big obstacle to the smooth use of the airways is the fact that the important service of air controlling has been nationalized by the federal government in its FAA [Federal Aviation Administration]. As usual, government provision of a labor service is far less efficient and sensitive to consumer needs than private firms would be. President Reagan's feat in de-unionizing the air controllers early in his administration has made people overlook the far more important fact that this vital service has remained in government hands, and poses, therefore, a growing threat to the safety of every air traveller.

As in every other case of government control and regulation, therefore, the cure for freedom is still more freedom. Halfway measures of deregulation are never enough. We must have the insight and the courage to go the whole way: in the airline case, to privatize commercial airports and the occupation of air traffic controlling. ■

Murray N. Rothbard is the S.J. Hall distinguished professor of economics at the University of Nevada, Las Vegas, and vice president for academic affairs at the Ludwig von Mises Institute.

Government Intervention...from page 1

The first economic calamity of the century occurred in 1808 when a federal embargo on overseas shipping produced widespread bankruptcies and unemployment. After that, four major cyclical depressions struck the American economy: in 1819, 1837, 1857, and 1893. The typical economic history text lists among the "causes" things like railroad speculation, stock crashes, trade imbalances, commodity price booms and busts, etc.

These are not, of course, causes at all, but merely symptoms. Only Austrian trade cycle theory as propounded by Ludwig von Mises, Murray N. Rothbard, and others, makes sense of the mess and provides a coherent explanation of these five depressions.

The 1819 collapse followed a flagrant credit expansion by the Second Bank of the United States, created by the feds in 1816. The definitive work on the experience is still Rothbard's PhD thesis, *The Panic of 1819*.

Rothbard documented the extensive culpability of the Second Bank. In its very first year, it issued $23 million on a specie reserve of about $2.5 million. The expansion of credit, which eventually involved state banks as well, was actively encouraged by the U.S. Treasury. The government even made it legal for inflating banks to fraudulently suspend payment of specie, ripping off hapless depositors in the process.

Then, in a series of deliberate deflationary moves, the Second Bank pulled the rug out from under the very house of cards it had built. It forced a drastic reduction in the money supply starting as early as the middle of 1818. The depression, which came a few months later, was the unavoidable outcome of gross manipulation of money and credit.

Those who blame the gold standard for this debacle are wrong. In fact, the country was not even on a gold standard at the time. In 1792, the official policy was "bimetallism," according to which silver and gold were to circulate side by side at a governmentally fixed ratio. (The ratio between the prices of any two commodities, including gold and silver, is always changing on the market, and an attempt to fix the ratio by government fiat always leads to trouble. In this instance, it forced the country onto a de facto silver standard from the start. The same sort of intervention proved to be a major factor in the later crisis of 1893.)

The Second Bank's shenanigans created the depression of 1837. Anticipating a political battle to renew the Bank when its charter ran out in 1836, Bank authorities early in the decade embarked upon a rapid expansion of the money supply. Reserve ratios were pushed to their lowest levels of the entire antebellum period. Orchestrating "good times" through easy money was the Bank's way of fighting hard-money, anti-central bank President Andrew Jackson.

Jackson, however, flattened the inflation by requiring specie in payment for federal lands and by vetoing the Bank's charter. In the quick contraction that followed, the inflationary malinvestments promoted by the bank were liquidated. But Washington persisted with its policy of bimetallism. In addition, state and local governments responded to the 1837 collapse with a wave of anti-banking laws, outlawing banks altogether in some places and exacerbating the depression. This is hardly laissez-faire or gold standard behavior.

By the early 1850s, state governments got into the inflation act. Exerting control over their extensive network of state-chartered banks, they pressured the banks to monetize state debt. The result was another round of credit expansion, dangerous reduction of specie reserves, and a temporary, artificial boom in the economy, followed by panic and depression in 1857. Because the pressure on banks to monetize debt occurred principally in the Northern states, the subsequent collapse was considerably less pronounced in the South.

The general depression of 1873 also provides a clear example of government as the guilty party. In the prior decade, both Northern and Southern regimes abandoned a specie standard altogether and printed massive quantities of irredeemable, legal tender paper.

> *At the war's conclusion, a greenback was worth only 35 cents in gold.*

In the Confederacy, high taxes, a paper hyperinflation, and Northern scorched-earth military policies plunged the region into depression in 1865.

In the North, despite crippling tax hikes, revenues fell far short of the funds necessary to prosecute the war. No less than $5.2 billion in "greenbacks" were printed. At the war's conclusion, a greenback dollar was worth only 35 cents in gold. The Northern economy struggled for a few more years, but with the complete cessation of paper inflation in the 1870s, collapse and readjustment began by 1873.

Recovery had barely commenced when the central government began a new form of monetary intervention, this one tied to silver. In 1878, Congress passed (over President Hayes' veto) the Bland-Allison Act, which mandated the Treasury's purchase of $2-4 million in silver bullion per month. The metal was to be minted into silver dollars, each containing 371.25 grains of silver. Since the gold dollar was defined as 23.22 grains of gold, this established a ratio between the two metals of 16 to 1.

But the free market value of silver in terms of gold was at least 18 to 1 in 1878. By overvaluing silver and undervaluing gold, Bland-Allison set Gresham's Law into motion. "Bad" money (officially overvalued silver) began to drive "good" money (officially undervalued gold) out of circulation, deranging the nation's finances and engendering a steady loss of confidence in the currency. On top of it all, Bland-Allison authorized the Treasury to issue paper silver certificates along with the depreciating silver dollars.

The inflationists of the period—who pushed for this intervention in the belief that "more money" would aid the economy in general and debtors in particular—were not satisfied. Throughout the 1880s, they pushed for even more inflation under the guise of "doing something for silver."

Their crowning folly was enacted into law in 1890—the Sherman Silver Purchase Act. It required the Treasury to buy virtually the entire output of American silver mines—4.5 million ounces per month; mint it at 16 to 1 at a time when the gold/silver ratio in the free market was actually greater than 30 to 1; and issue new paper "Treasury Notes" simultaneously.

Drugged by easy money, the economy took on the classic symptoms of a boom. Unemployment and interest rates in 1891 and 1892 fell dramatically. Capital goods industries worked feverishly. Foreigners, however, were the first to sense danger and began withdrawing their capital from America as early as 1891.

The economic reversal started in 1893, and led to the worst depression in 50 years. It also produced one of the more scholarly addresses ever delivered before the House of Representatives. Congressman Bourke Cochran of New York, a first-rate historian, traced the history of coinage in England and explained how debasing the currency led to recurrent depressions. Applying that principle to his day, he declared:

> I think it safe to assert that every commercial crisis can be traced to an unnecessary inflation of the currency, or to an improvident expansion of credit. The operation of the Sherman Law has been to flood this country with paper money without providing any method whatever for its redemption. The circulating medium has become so redundant that the channels of commerce have overflowed and gold has been expelled.

Viewing the crisis of 1893, contemporary historian Ernest Ludlow Bogart said:

> It must be said that the net results of this experiment of "managed currency," that is, one in which the government undertakes to provide the necessary money for the people, were disastrous. For the maintenance of a suitable supply, the operation of normal economic forces is more reliable than the judgment of a legislative body.

The economy of 19th-century America was punctuated by serious economic setbacks. They were caused not by the free market, but by the destructive manipulations and interventions of government authorities. This was not a century of government as innocent bystander, but of government as the incessant bungler, running roughshod over the principle of sound and honest money. (Although, without a Fed and other government interventions, the recoveries from these panics were quick.)

We can learn much from the experiences sketched here. Monetary reform, if it is to be genuine and successful, must sever money and banking from politics. That's why a modern gold standard must have: no central bank; no fixed ratios between gold and silver; no bail-outs; no suspension of gold payments or other bank frauds; no monetization of debt; and no inflation of the money supply, all of which have proved so disastrous in the past.

Anything short of the discipline and honesty of a true gold coin standard will inevitably self-destruct, consuming our wealth and liberties, and nurturing the omnipotent state. ■

Lawrence W. Reed is chief economist for James U. Blanchard & Co. and an adjunct scholar of the Ludwig von Mises Institute.

"We are proud to have the Ludwig von Mises Institute on our campus."
—James E. Martin, President
Auburn University

Economic Warfare Hurts Us More Than Them

by Robert Higgs and Charlotte Twight

During the past decade the United States has repeatedly waged war, not with guns, missiles, and bombs, but with economic sanctions restricting the international transactions and travel of Americans.

Economic warfare—prohibitions of travel and commercial and financial dealings imposed selectively in order to alter the behavior of other governments—has been waged at one time or another since 1979 against Iran, Libya, Nicaragua, South Africa, and Syria as well as various communist countries.

Sanctions usually fail to attain their ostensible objective: they do not alter the conduct of other governments. But they do have significant domestic consequences. Americans suffer economic losses, both short-term and long-term. In effect, sanctions impose the costs of U.S. foreign policy on Americans interested in certain international commercial and financial deals or travel to certain countries.

Sanctions imposed after the Iranians took American hostages in Tehran in 1979 illustrate the erratic and arbitrary character of this instrument of foreign policy. President Carter first blocked all Iranian property in the United States and forbade most commercial and financial dealings with Iran. Then, as part of the deal to gain freedom for the hostages, Carter rescinded the sanctions, nullified attachments of Iranian property issued by federal courts, and suspended the legal claims of Americans against Iran. An Iran-United States Claims Tribunal was established in the Netherlands, and Americans were forbidden to press their claims in U.S. courts.

This extraordinary setting-aside of the judicial system by the President was challenged in an important 1981 Supreme Court case, *Dames & Moore v. Regan*. The Court's decision gave broad scope to the President's powers under the International Emergency Economic Powers Act, sustaining his nullification of courts' attachments of Iranian property. Moreover, the Court held that, even without explicit statutory authority, the President has constitutional power to suspend American claims in federal courts because of "a history of congressional acquiescence" in similar instances. Whatever Executive action Congress has never overtly disapproved, it has implicitly approved—a doctrine that would have astonished the Founding Fathers.

In making regulations to implement sanctions, the bureaucrats of the Treasury's Office of Foreign Assets Control (OFAC) have extraordinary discretion—the power to act arbitrarily and capriciously. Licenses may be denied, granted, or revoked at will. OFAC is not bound by the Administrative Procedure Act with regard to notice of proposed rule making, opportunity for public participation, or delay in effective date. OFAC officials may, and sometimes do, abruptly alter the rules solely at their pleasure. They often create loopholes for privileged parties, such as wholly-owned foreign subsidiaries of American oil companies that continue business as usual with Libya, notwithstanding the President's order that Americans cease operations in that country. Administrative officials may, as in the Iranian case, set aside the protections normally afforded private property rights by the U.S. judicial system.

Economic warfare rarely promotes the national interest effectively. Rather, it is a costly form of political theater. Only governmental officials, especially the President, normally benefit from it; and even that benefit is fleeting.

A President wages economic warfare because it enhances his popularity, if only momentarily. It diverts attention from intractable domestic problems and creates an image that he is strong, that he is "doing something" to defend or promote American interests beyond our borders.

Economic warfare has shifted rights from private hands into the hands of government officials who are free to exercise their newly acquired powers with virtually unchecked discretion.

The image has little substance. The governments of Iran, Libya, Nicaragua, South Africa, and Syria have not been visibly moved by U.S. sanctions against them. But American citizens have been hurt. Although some firms have found ways to circumvent the sanctions, important business has been lost—computer sales to South Africa, aircraft sales to Syria, all exports to Nicaragua. American reputations for reliable service have suffered in the world market, where alternative foreign suppliers are usually happy to take on the business denied Americans by their own government.

More importantly, economic warfare has shifted rights from private hands into the hands of governmental officials who are free to exercise their newly acquired powers with virtually unchecked discretion. Nothing of genuine public importance has been gained; bad political and legal precedents have become established; a little more liberty has been lost. As Ludwig von Mises pointed out in *The Free and Prosperous Commonwealth*: "Nationalist policies, which always begin by aiming at the ruination of one's neighbor, must, in the final analysis, lead to the ruination of all." ■

Robert Higgs, the William E. Simon professor of political economy at Lafayette College, is an adjunct scholar of the Ludwig von Mises Institute; Charlotte Twight, a member of the Washington State Bar, teaches economics at Boise State University.

A Tale of Two Washington Statues

by Jeffrey A. Tucker

Near the great doorway to the south portico of the National Archives in Washington, D.C., stands a large granite pedestal surmounted by a powerful eight-foot limestone figure of a man.

Named "Guardianship," he sits holding a helmet of Protection in one hand and a sheathed sword in the other. The inscription from Thomas Jefferson reads: "Eternal Vigilance is the Price of Liberty."

To create "Guardianship," sculptor James Earle Fraser—who also designed some of the great U.S. coins—brought to Washington the largest block of limestone ever quarried in the United States. It arrived on a special railroad flatcar, and Fraser had to work on top of the flatcar cutting away one-third of the block before a crane could bring the unfinished stone to the building site. Finished in 1935, it sits between 7th and 9th streets on Constitution Avenue, N.W.

"Guardianship" is a sad rarity among Washington's statist statues. Far more typical is a monstrosity only two blocks south in front of the Federal Trade Commission.

Styled in New Deal (or Mussolini) modern, the 12-foot high sculpture depicts a struggling horse, his neck seized by a muscular man. The horse, says the FTC, represents the free market and the man the State. The title: "Man Controlling Trade."

To find out about "Man Controlling Trade," I went inside the Federal Trade Commission and asked the security guard. He told me to go to Room 130 where, after a 10-minute wait, a man told me to go to Room 131, where a woman said to go to Room 420, where I was told to return to Room 130. A clerk, promising to get me some information, left the room and never came back.

While waiting, I browsed through the literature rack in the hall, and found a helpful FTC booklet on how to read care labels on clothing. It told me that "No Bleach" means "No bleaches may be used," and "Dry Away From Heat" means "Dry away from heat." There were plenty of booklets on protecting yourself from self-employed professionals, but none on protecting yourself from the FTC, as the "Man" outside "Controlling Trade" would be glad to know.

In these two Washington statues—one a hero of liberty and the other a villain of legal plunder—we see symbolized the fight for liberty against the forces of government tyranny.

If only, as in the ancient Greek myth, statues could come to life, "Guardianship" would use his sword on the "Man" in front of the FTC, mount the now-free horse "Trade," charge up Constitution Avenue, and storm the Capitol. ■

Jeffrey A. Tucker, associate editor of The Free Market, *is a Mises Institute Fellow at George Mason University, where—when not thinking about statues—he helps run our student study center.*

Trust Government...from page 8

were available, but government collected huge amounts of tax money to build giant clock towers in the centers of towns.

In Lyons, France, for instance, officials wanted a "great clock whose strokes could be heard by all citizens in all parts of the town. If such a clock were to be made, more merchants would come to the fairs, the citizens would be very consoled, cheerful and happy, and would lead a more orderly life." We still see these kinds of clock towers all over Europe. Big Ben was modeled after them.

If in today's world timekeeping were still considered too important for the free market, individualized timekeeping could even be illegal. No wristwatch, alarm clock, or other timepiece could be privately owned because individuals could never be trusted to govern their own affairs. They might set their clocks wrong.

To make sure everyone was using the correct time, the DOT would subsidize and control the production of one clock for each community. Following the medieval pattern, each clock would be perched atop a mile-high tower in the center of the city and would be the size of the Queen Mary. It would loom over the city like a storm cloud. The ticking would sound like a pile driver.

People would complain about the inconvenience of having to look out their windows whenever they wanted to know the time, so each clock would also be equipped with a chime ringing every fifteen minutes, as in medieval Europe. To be heard everywhere in the city, the chime would be loud enough to reverberate like a thunderclap, rattling doors and windows for miles around. Every fifteen minutes. All day and all night long.

But no one would question the need for this monstrously expensive torture device because individualized timekeeping would not exist, so no one would believe it could exist. Any lunatic who suggested the free market could provide each individual with a highly accurate clock small enough to be worn on the wrist would be laughed out of town. *Obviously*, everyone would exclaim, even if such a futuristic gadget could be invented, it would cost a fortune; and besides, everyone would have his watch set differently—there would be chaos.

Everybody knows liberty does not work. Essential services must be provided by government. ■

Rick Maybury, a well-known freelance writer, is a media associate of the Ludwig von Mises Institute.

Trust Government, Not the Free Market

by Richard J. Maybury

All this talk about liberty is exciting, but let's get serious for a moment. The evidence shows clearly that liberty does not work. Many things are too important to be left to the whims of the free market. Imagine the chaos if our schools, postal system, Social Security, all other essential services were not provided by government.

This is the reasoning behind the need for government intervention. We cannot get along without it. We cannot trust the free market to provide our essential services. But does this reasoning stand up under close scrutiny?

What is the most essential service known to man? Is it schools? Social Security? Police? Roads?

Consider clocks. Is there anything more important than the service they provide?

Imagine a world without clocks. Imagine trying to run a factory with assembly line workers straggling in at all hours of the day.

Imagine a busy airport without clocks. Without the ability to schedule arrivals at evenly spaced intervals, planes short on fuel would enter the landing pattern and find no room on the runways.

Imagine railroads without clocks. Imagine two trains without schedules accidentally converging on an intersection at the same moment.

Imagine giant oil tankers maneuvering in shallow waters without clocks—without the means to predict accurately the tides.

Neither the Industrial Revolution nor the prosperity created by it were possible until clocks had been invented. In a civilization as advanced as ours, the single most important requirement may well be good *timing*.

Without the ability to tell time, our newspapers, radio, and TV stations would be unable to schedule their activities or meet deadlines. Schools would be unable to conduct classes. Business meetings, appointments, and planning would be impossible.

Our civilization would collapse, because we would not be able to *organize* ourselves.

Yet organization does occur and our civilization does work because we are able to tell time. In fact, we are able to tell time very effectively.

On my wrist is an electronic digital watch. A few years ago such watches cost $200. Today you can get them for $20. Despite their low cost and incredible complexity, they are highly accurate.

They are provided by free enterprise.

But suppose they were not provided by free enterprise. Suppose instead that timekeeping were considered too important to be left to the "whims of the free market." What would a digital watch be like if it were a public service produced by government?

Judging by everything else government does, a watch would cost a year's wages and be the size and weight of a manhole cover. It would always run at least six hours slow except when it were running backwards.

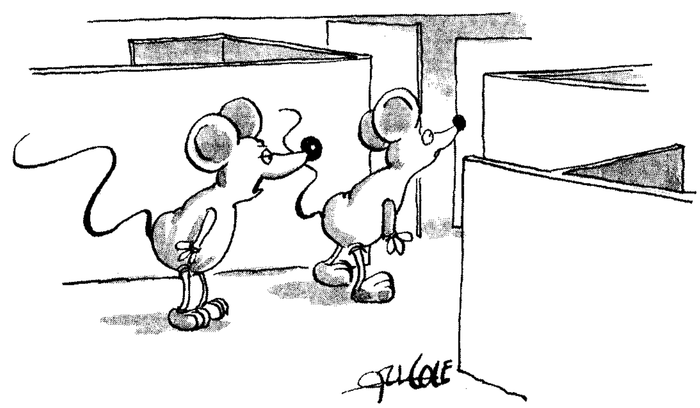
If timekeeping were a public service, the DOT (Department of Time) would consume 20 billion tax dollars per year and its army of bureaucrats would regulate every facet of watch production and timekeeping. But no one would question the need for the DOT. After all, there has to be *some* control, doesn't there?

Imagine the chaos if we had no laws requiring everyone's watch to be set accurately. Factories could not operate. Schools would close. Airliners would crash. Obviously, a $10,000 fine and a year in prison are reasonable penalties for having your watch set wrong.

That's an optimistic assessment of government timekeeping. Realistically, the situation would be a modern version of the one prevailing during the Middle Ages in Europe.

In medieval Europe, timekeeping really was considered too important for the free market. Small personal clocks

(Continued on page seven)



"THESE MAZES WERE A LOT SIMPLER BEFORE THEY GOT FEDERAL FUNDING!"