

# THE Libertarian Forum

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## The Economy: the Year Ahead

This is the season of the year when a host of high-priced economists unlimber their high-speed computers and uncork their precise predictions for the economy for the year ahead: the exact level of the GNP, the inflation rate, unemployment, and so on. In this lucrative forecasting industry, all the forecasts are more or less the same, and they will usually be proven way off the mark. The reason they all sound the same and are so off base is simple: all they are really doing, when you cut through the cloud of obscurantist jargon, is extrapolating this year's trend: i.e., they take a ruler and continue the trend of the last six months or so onto the coming year. Of course, they don't *say* they're doing that; for, after all, who in their right mind would pay \$100,000 or \$1 million for some bozo to take a ruler and extrapolate trend? You don't need a Ph.D to do *that*.

Actually, the situation is worse than that. For numerous studies have shown that forecasts based on econometric mumbo-jumbo have done *less well* than simple extrapolation of trend! As any given year wears on, and the forecasts of the previous December look more and more haywire, the "scientific" econometric equations are then "adjusted" so as to conform to the current situation, and then *that* is extrapolated for the remaining few months. In that way, economists think they will look a bit better.

Any *schmo* with a ruler can extrapolate trend, but the real trick in forecasting is to predict *changes* in trend, and that can be done neither with rulers nor with equations and computers. *That's* where all the errors come in.

So why are all the forecasts alike? Because there is security riding in packs. If all economists are wrong together, well that's the luck of the draw, and no one economist will be blamed by his clients. But if an economist is very different from his colleagues, *and* he's proved wrong, then he will lose clients in droves.

### Where We Are At

Having said all this, I will now enter the lists and at least give a sense of where the economy is and what I think lies ahead.

First, we must face up to the fact that we are in a *de-pres-sion*. (Some readers should write this slowly 100 times on the blackboard so this will sink in.) Reaganite whitewash propaganda to the contrary, a 10.8% unemployment rate (and no sign of going down) is a depression by any standards. So is a bankruptcy rate higher than at any time since the 1930's. The usual reply that unemployment is not as bad as the 20-25% rate during the 1930's is beside the point. *That* was not just a depression, but the biggest one in American and world

history. By general depression standards, we are in one, and it's a lulu.

Second, don't be fooled by the constant, unremitting stream of Reaganite propaganda that "recovery has begun" because some minor index somewhere has turned up. ("Hey, look here, bubble gum production has just increased by 0.2% last month. The depression is over!") Last summer, Reagan at one press conference, almost said IT. Referring to the economy, he almost said: "Prosperity is just around the corner" (he was talking about "turning the corner" soon when he stopped), the infamous and disastrous Herbert Hoover phrase during the depths of the Great Depression.

Third, conservative protests that the unemployment rate is not precise and too high (as well as left/liberal protests that it is imprecise and too low) miss the point, and probably deliberately. Of course, the figures are not precise. By using interview techniques, they overweight the number of people looking for work, making the figures too high, but also by omitting discouraged workers and those unemployed very recently, they make the figures too low. But the point is that over the decades the trend of the same imprecise figures will give us a pretty good idea of what is happening in the economy. If the comparable unemployment rate was 3% in the 1950's and nearly 11% now, something is very wrong, and no mistake.

Fourth, the undeservedly revered National Bureau of Economic Research, the self-appointed experts on dating business cycles, have decreed that the current recession began in the summer of 1981, following a boom beginning in the previous year. But the pretentiously "scientific" National Bureau is hobbled by its own faulty methodology. Its methods, for example, prevent it from distinguishing minor from major booms or busts. It looks more and more that we have been in a depression, not just since the summer of 1981, but since the recession of 1979. The "boom" of 1980-81 now looks like simply an aborted fitful uptick within a depression that has been chronic since 1979. The economy has stagnated since 1979; production and standard of living have been depressed and declining.

Fifth, does this mean that Reagan is off the hook, and that he has only been struggling against disastrous policies inherited from his predecessor? No, for Reaganite policies swiftly put an end to the fitful recovery and plunged us into a far deeper depression that we had from 1979-80.

What *were* these calamitous Reaganite policies? The important thing to realize is that Reagan is *not*, repeat *not*, a free-market, hard-money hero manfully seeing us through the painful but necessary consequences of his "drastic budget-

cutting", "drastic-tax slashing", hard-money policies of 1981-82. There were *no* such policies. That was all hot air and mendacity. On the contrary, Reagan *raised* the budget sharply, *increased* not lowered (much less "drastically" lowered) taxes, and launched the by now familiar disastrously accelerating deficits.

Thus: in fiscal 1980, the last full fiscal year of the Carter administration, and by far the biggest spending year in Jimmie's reign, total federal spending was \$580 billion. (Carter's average spending for his three full fiscal years was \$508 billion.) Despite all the boasting (by Reaganites) and wailing (by liberals) about the "disastrous" Reagan budget cuts, Reagan's budget totalled \$661 billion in fiscal 1981 (a year he shared with Carter), and rose to an estimated \$725 billion in Reagan's first full fiscal year, 1982. Next year it will be *much* higher.

All right, but what about the famous ill-advised "drastic" supply-side income tax cuts put through by Reagan in 1981? Let's look at the record. In fiscal 1980, Carter collected \$520 billion in taxes from the hapless American public. (Carter's average taxes for his three full fiscal years were \$463 billion.) Ronnie Reagan, after a year of "drastic tax slashing", raised tax revenues to \$603 billion in fiscal 1981, and then to an estimated \$627 billion in fiscal 1982. The much vaunted income tax cut was so small that it was more than outweighed by the programmed Social Security tax increase (which Reagan did nothing to cut) and by "bracket creep", the sinister process by which inflation wafts us into a higher tax bracket, so that even though we are no better off, we have to pay higher tax rates even when rates have *officially* remained the same or even been reduced!

As for deficits, free-spending Carter incurred the second biggest deficit in American history in his last fiscal year, 1980, at \$60 billion, topped only by good grey Jerry Ford's \$66 billion in *his* last year, fiscal 1976, (The previous high had been \$57 billion in 1943, the depths of World War II). In fiscal 1982, his first full year, "tight-fisted Scrooge" Ronald Reagan came through with by far the biggest deficit in American history, an estimated \$99 billion, and for the present and for next year, estimates (which almost always *undervalue* the deficit) are now predicting a \$200 billion annual deficit, and rising.

So: on the budget, taxes, and deficits, Reaganomics has *not* been a reversal or even a deceleration of previous New Deal-Fair Deal-Great Society trends. On the contrary, Reaganomics was and continues to be an *acceleration* of statist Great Society economic policies.

Sixth, but what about Reagan's proudest achievement, the "abatement" of inflation in his two years in office? It is true that inflation has come down, from approximately 13 to 5 per cent, but it is no trick to bring down inflation when we are suffering the greatest depression in half a century. Quite the contrary, the 5 per cent is a cause for alarm, not congratulation. In the middle of a depression, prices should be going *down* sharply, and not rising at a substantial 5 per cent. In fact, the worrisome chronic nature of our inflation problem can be seen in the fact that only eleven and a half years ago, Richard Nixon panicked and imposed price-wage control because inflation was then hitting us at the then alarmingly high rate of 5.5%. It is the measure of the way inflation has permeated our lives that we think of 5 per cent not as alarmingly high, but as a sign that inflation has ended,

and that we can now, in the current phrase, "declare victory" over inflation and proceed to tackle unemployment.

Seventh, since July 1982, the Reagan Administration and the Federal Reserve have thrown in the towel on any feeble attempt to stop inflating and inflation. Since that time, the rate of Fed counterfeiting ("increase of the money supply") has accelerated to the massive figure of over 15 per cent per year. The Fed has indeed "declared victory" over inflation and gone all-out to try to inflate the money supply as its seemingly only way out to get us out of the depression.

### What Went Wrong?

What went wrong? How did the high hopes get dashed so quickly? The Reagan Administration had a plan, which they figured to be a cunning one. It would employ the trappings of old-fashioned free-market rhetoric ("drastic" budget cuts and tax cuts, balanced budget, hard money) and supply-side jargon, while doing precisely the opposite, and in the meanwhile behind this smoke-screen, Friedmanite monetarism was supposed to perform its magic. The Friedmanites had gotten control of the Treasury Department and most of the economic advisers, and were able to bludgeon the Fed into going along with them. The Friedmanites had a plan: the Fed would slowly, ever so slowly, lower the rate of counterfeiting year after year, and thereby bring down the rate of inflation without getting the economy (as had always been true in the past) into a recession. Gradualism would be the key. Furthermore, the Friedmanites claimed that the "real" rate of interest (the nominal interest rate minus inflation rate) was always, as if by divine commandment, at 3%. Therefore, as inflation would be brought down by the Fed's gradual reduction of money growth, real interest rates—and therefore money rates—would fall, stimulating the economy and insuring us against any major recession.

The rate of money growth *did* fall significantly as the Fed put monetarism into effect. But, lo and behold!, the supposedly inflexible 3 per cent rule for real interest rates was broken, and interest rates stayed way up while inflation fell sharply. Hence, *real* rates rose to unprecedentedly high levels. By the late summer of 1981, it was clear that a recession was upon us, and interest rates stayed almost at boom levels while inflation abated rapidly. And, while interest rates have fallen a bit since then, they have fallen far less than a depression would usually warrant, and the continuing very high real interest rates have put a lid on any significant recovery.

Gradualism, however, was the Friedmanites' undoing. Not only did the reduction in money growth precipitate a recession, but gradualism made sure that the recession would be slow, dragged out, grinding. For recessions are not irrational acts of God nor random events. They perform a vital function: washing out the unsound malinvestments of the preceding inflationary boom, and redirecting land, labor, and capital to their most efficient uses in the service of consumers. The longer and the more intense the distorting inflationary boom, the greater the work that the cleansing, corrective recession will have to do. This is the insight of the "Austrian" theory of business cycles. But this means that the best that can be done about a recession is for the government to keep hands off—to allow the recession to do its crucial work as quickly as possible. If the government intervenes to allay, check, or stop the workings of the recession, it will only transform a short, sharp recession into a chronic, stagnating depression. The choice is either: transitory acute infection, or

a chronic, grinding debilitating disease.

But why has the 1979 depression been so much worse than its predecessors? Because, after several decades of inflation, the public has stopped being suckers; the public has learned to expect, or anticipate, inflation, and has therefore taken steps accordingly: spending money faster, or adding expected inflation to the interest rate. Suppose that the "natural" or "real" rate of interest is 5 per cent, for example, and that everyone then comes to expect a 12 per cent inflation rate in the coming year. Any creditor who continues to charge 5 per cent interest will now be losing 7 per cent of his money per year, for the dollars he gets paid are worth 12 per cent less than the dollars he loaned out. The debtor is in a reverse situation; inflation permits him to expropriate the creditor. Over the years, as both sets of people catch on to the permanent inflation policy, both creditors and debtors agree to attach an expected-inflation premium to the interest rate. Hence, decades of inflation will raise nominal interest rates greatly.

And real rates too. For the Friedmanites' great error was in assuming that the *current* rate of inflation (whether 12 percent or 5 per cent) is identical with what people on the market *expect* inflation rates to be. But that is not necessarily true, especially after decades of inflation. For the market, the public, now do not trust the Fed or the administration—*any* administration—not to resume inflating after the inevitable recession strikes.

Most people assume that current and expected future deficits have raised interest rates *directly*: by the government entering the bond market as borrower and thereby bidding up interest rates and yields. But while important, the far more critical impact of the Reaganite deficits was in signaling the market that the Fed would soon resume its inflationary role in order to finance them. The resulting anticipated inflation was then quickly reflected back in interest rates.

The market was right not to trust the Reagan Administration and the Fed, for despite their endless promises and rhetoric, the Fed, as we have seen, has inflated to a fare-thee-well since July, and "victory" over inflation has now been declared. For the depression and the high real interest rates have discredited Friedmanite monetarism, and so the Administration has now turned to the good old gang that brought us the calamitous Nixon and Ford administrations: the conservative Keynesians. For that is precisely what the Shultzes, Burnses, Greenspans, Steins, Feldsteins, are. And Keynesianism—though now totally confused—means we are back to inflationary monetary policy, coupled with higher taxes and deficits.

Poor old Keynes must be spinning in his grave. If Keynesianism means anything, it means: don't increase taxes during a depression. Indeed, it is hard to think of *any* school of economic thought which calls for walloping tax increases in a depression: one would expect common sense to tell you that saving, investment, and productive activity would be crippled. But this is what 1980's Keynesianism decrees, and that is what Ronald Reagan has become, thereby following the footsteps of the illustrious Herbert Hoover, who aggravated the Great Depression by doing the very same thing. It is ironic that the Democratic Party, which ran for half a century on a platform attacking Herbert Hoover, should now in effect have embraced him as their very own. And so has Reagan, who has been pouring on the tax

increases in the latter half of 1982, and will continue to do so—all the while declaiming his hatred of taxes and unbalanced budgets.

### The Coming Year

So what will happen this year? Will there be a recovery? In a sense, it doesn't matter, for it is almost impossible to see any recovery as being anything other than weak and fitful. Why? Because the current tremendous expansion of the monetary supply is bound to accelerate inflation sometime early this year, and because the *anticipation* of inflation from the money supply and from monetized deficits will drive inflation up still further. And it will also raise interest rates even earlier, in anticipation of renewed inflation, and aided by the pressure that huge deficits will put on the bond market. And rising interest rates from already high current levels will put a damper on any recovery that might occur.

Expectations of inflation and rising levels of interest rates have therefore put the kibash on all nostrums of government intervention in the economy. If the Reagan Administration had continued to follow the Friedmanite path, we would have faced continuing stagnation and depression; if it had followed the supply-siders (who never really had a chance), even greater deficits, inflation, and depression would have ensued. Now, following Keynesian doctrines, trying to inflate our way into lower interest rates and out of depression, we will *still* only experience higher interest rates and more depression.

So—our Fearless Forecast is that 1983 will be another year of a quagmire of inflationary depression. We will have more of the same but worse. Unemployment will continue at disastrous peak levels since World War II; stagnation of productive activity will continue. Either we will have zero recovery or a brief fitful one. *If (A)* we have zero recovery, unemployment will be higher even than now, production will be in the doldrums, bankruptcies will continue at a high rate, *and* interest rates and inflation will be substantially higher than now, in response to late 1982 levels of monetary expansion and staggering deficits. The Fed has had its brief happy bout of slightly lowering *short-term* interest rates through massive monetary inflation. The Piper will now be paid, beginning first in long-term interest rates (bond prices) which are most sensitive to inflationary expectations. Long-term rates will rise, followed later and reluctantly by short-term.

That's if there is zero recovery. If, on the other hand, *(B)*, there is a brief but aborted recovery, the pattern will be slightly different. Recovery will embolden the market, and that, combined with the other inflationary factors of a huge expansion of money and enormous deficits, will cause a much larger and faster rise in prices than under Scenario A. Interest rates, too, will rise higher and earlier than under Scenario A. And while unemployment might fall a wee bit, and production rise by marginal amounts, this weak recovery will soon be aborted by the much higher interest rates, sending the economy spiralling downward and getting worse.

Either way, then, we estimate that the economy will continue to be in a double bind, so that anything the government will do will quickly rebound to aggravate all the least loved facets of the current economy: high unemployment, stagnation, high interest rates, inflation.

The interesting question to speculate on is: what will the Reagan Administration *do* when, panicking in early 1984, with the presidential elections coming up, they see that

conservative Keynesianism too will be a flop, and they will have failed across the board with no options open (that they will bother to consider). Will they drift down the road to inevitable oblivion, like the late unlamented Jimmy? Or will they seek bold and desperate measures, such as: credit controls; price and wage controls (perhaps thinly disguised as "incomes policy"), massive socialistic public works projects (which Reagan is already starting, on the highways)? Or, just maybe, a lovely little war somewhere, to bring on the juices of patriotism and all-out government intervention? Who knows? But don't bet your life against any or all of these measures by our beloved "free-market" Administration.

#### What Should Be Done?

What then, should or could be done to get the economy out of this locked-in double bind of inflationary depression? Must everything be hopeless? No—the correct prescription for our ills comes from the analysis of the Austrian School. In the area of money, we must, as the current dean of the Austrians, F. A. Hayek, says: "slam on the brakes." We must abandon the decay of gradualism for the short swift surgical procedure of radicalism. We cannot avoid recession; but if we stopped monetary inflation, and we made the stopping credible, *then* inflationary expectations, embedded—for good reason—in the hearts and minds of the public, would be reversed, and the Final Recession would be short and lightened greatly by the outpouring of savings and investment as inflation is seen to be over and real interest rates fall. But for the public or the market to trust that the brake-slammings will last beyond a couple of months, there must be radical institutional change to induce that credibility.

What sort of radical change? In the Fed and in the monetary standard. The dollar must be denationalized, taken out of the hands of the Fed and the Treasury. The only way to do that is to redefine the dollar as a weight of gold (i.e.

"return to the gold standard"), and then redeem the hoard of gold that the federal government stole from us in 1933 and has never returned. The Fed should then be abolished, with banks set free, but held to the strictest market standards of outlawry of fraud, and forced to close their doors at the slightest refusal to redeem their deposits on demand (or whenever they fall due).

Pending the gold standard and abolition of the Fed, the very least to be done would be passing a law freezing the Fed permanently. That is, prohibiting the Fed from buying any assets ever again (or making any further loans, or lowering reserve requirements). If the Fed cannot politically be abolished outright, then it should be frozen into innocuous desuetude.

In addition to freezing the Fed and/or returning to a real (not a phony) gold standard, fiscal policy can help this monetary program by drastically cutting taxes (that's real cuts, not "cuts in the rate of increase", cuts in percentage of GNP, or the rest of the namby-pamby evasions), and drastically cutting government spending even further. Where O where can the budget ever be cut? Anywhere and everywhere, with meat axes, hacksaws, anything to hand. For openers, pick the precise budget of some previous President—anyone, including Carter, but the earlier the better, back to Jefferson, say, and just copy each figure in the budget line by line. You wouldn't need thousands of White House staff members to accomplish this feat either; just two guys and a pencil. How many people realize that if we merely cut the budget back to the last, free-spending full Carter figures, we would have a handsome budgetary *surplus*? Of course, if I had my druthers, and could push a magic button, the federal budget would be cut back to a nice fat zero. So don't start wailing about "where can we cut the budget?" All we need is the will. ‡

## Leave the Street Vendors Be!

by Jon D. Wiseman\*

If a growing number of urban chambers of commerce and boards of trade are to have their way, the poor and unemployed will face the closure of what is perhaps the last legal exit from their destitute condition. What these locally organized business interests wish to do is to make it all but impossible for the down-and-out to become business folks themselves — their proposals range from outlawing street vending in certain areas to putting it out of reach in all areas through exorbitant licensing fees for all but rather well-to-do folks. Their petition is understandable, but it mustn't be supported. Capitalists are all too renowned for extolling the virtues of free competition while conspiring to avoid its harsh discipline. As that apostle of capitalism, Adam Smith, put it: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

If one were a conspiracy theorist of sorts, this latest proposed move against the dispossessed might be seen as simply one more element in a concerted right-wing push to put the working class back in its traditional place — a complement to cutting off welfare, reducing unemployment benefits, eliminating or at least reducing minimum wages,

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weakening workplace health and safety rules, and of course, most importantly, creating massive unemployment. The conspiracy's goal would be to render workers docile, willing to do dirty, boring, perhaps dangerous, repetitive, non-creative work for poverty-level wages. Profits could then soar, the rich get richer, and once again good cheap maid service could be had. However, it's not a conspiracy. It's only an orgy of trickle-down economics in the void left by the bankruptcy of so-called liberal economics.

It would appear that in their naivete, the President and his supply-side advisers (Stockman surely excepted) don't view Reaganomics as a program for pacifying the working class and enriching the rich. Instead, they feel that it will unlock American initiative, creativity, and self-reliance. They wish to re-open America to their heroes, the self-made captains of industry. Although this is pretty much Hollywood reality, there's always been just enough "real-world" reality in it to make it credible to large numbers of Americans. What these organized business interests conspire to do is eliminate from their competitive spheres that last remnant of "real-world" reality — to leave the poor with no legal means of escape from wage-dependency and poverty. Of course that would appear to suit the interests of many already established businesses in a dual sense: The poor would effectively be blocked from becoming competitors; and, with all outlets for their self-

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## Movement Memories

(With this issue, we inaugurate an occasional feature on the Old Days of the Movement Revisited. In those early days, the Movement was undoubtedly smaller, probably wackier, and undoubtedly more lovable than the sobersides Behemoth we know so well today. The focus was on ideology and not image, and, at least in our corner of the movement, there was a lot of merriment along the way. There were deviations and heresies aplenty, but the one deviation that no one ever seriously entertained was opportunism. The very idea that our teeny movement could even consider selling out for Quick Victory would have been treated as a hilariously ironic takeoff on ideological sellouts of the past. Live and learn.—Ed. Note)

### 1947: I Enter The Movement

Recently, a friend found a copy of the following letter, in the files of my late friend, Dr. F. A. (Baldy) Harper. It was a nostalgic moment, because this fateful letter constituted my entry into the libertarian movement, although of course I could not realize this fully at the time. With the sending of this letter, at the age of 21, my life was irretrievably changed.

As a budding free-market economist surrounded completely by various species of socialists and communists, I was then in my first year at Columbia Graduate School, working for a Master's degree in economics. I had never known that any free-market people existed until, in late 1946, I came across a pamphlet attacking rent control and published by a new organization entitled the Foundation for Economic Education, which had been launched several months before. After obtaining other literature from FEE, I sat down with great enthusiasm to write people whom I had never met and knew little about, and send them suggestions on how to organize an intellectual movement for liberty. On receiving this letter, Baldy and the other FEE staff invited me up there, and I entered a new world, a world of libertarians.

Rereading the letter, it still seems pretty good, and some of the suggestions worthwhile even now. But I publish it for those interested in the long-gone, early days of the modern movement.

\* \* \* \*

March 5, 1947  
370 Central Park West  
New York 25, N. Y.

Mr. W. M. Curtiss  
Executive Secretary  
The Foundation for Economic Education, Inc.  
Irvington-on-Hudson  
New York

Dear Sir,

I am deeply honored to be considered an Affiliate of The Foundation. I have delayed writing to you for so long because I wished to read thoroughly all the material that you so generously sent and I have devoted considerable thought to suggestions as to the program of The Foundation. Unfortunately, my status as a graduate economics student requires me to limit the extent of my financial contribution to the minimum (one dollar.) However, I shall make every effort to cooperate with The Foundation through ideas, suggestions,

and every other way that I possibly can, even though my time is severely limited at present while studying for the Ph. D. degree at Columbia.

I have been profoundly stirred by the program of The Foundation, because it fills a gap which I believe is desperately important to close—the lack of an organization of liberal economists who combine a firm faith in the principles of liberalism with an expert knowledge of economics. Liberal organizations have invariably confined their statements to affirmations of general principles, which, though admirable, ignore the numerous subtle arguments of the statist. This is a fatal error, since the result is to leave the intellectuals prey to leftist arguments. “Never underestimate your opponent” is very important when applied to the intellectual process of the leftists. At the present time the overwhelming mass of the molders of public opinion in the United States—the intellectuals—are engaged in disseminating statist propaganda. This is particularly true, I am sorry to say, among economists, most of whom seem to be expending their valuable brain power devising schemes of government intervention. Most of the discussions in the economic journals center on the relative merits of this or that scheme for new government interference.

The Foundation has the noble and gigantic task of leading us on the road back to liberalism in economics. It is a struggle that will have to be fought on many fronts: among the mass of the people, the politicians, the lay intellectuals, and the professional economists. I am particularly pleased that you welcome the support of all who are interested in aiding this effort—this is unique and is indispensable to the acquisition of a “mass Base” for economic liberalism (to borrow a handy Marxian term.)

Accepting your invitation, the remainder of this letter will be taken up with suggestions and comments for The Foundation program. I hope you will forgive the undue length of this letter; I realize I am taxing your patience. The fault is due entirely to my unbounded enthusiasm for your organization and to a deep conviction that the Foundation must grow and expand and become an influential force if the American ideal of liberty is to be saved.

The Foundation can advance the cause of liberalism in many ways. One of the most effective is through the distribution of pamphlets such as you have sent me. These pamphlets are on such a uniform level of excellence that my only suggestion concerning them is “keep up the good work.”\*

Working with students should be an important part of The Foundation program. I believe that this program should be divided into two phases: lecture institute, and seminars. The lecture courses should be designed for students and for intelligent laymen, covering a number of broad fields of political economy, and designed to develop a general liberal

\* After careful study of the pamphlets, I could find only one minor point of disagreement—I think Mr. Read is over-austere as to the inevitability of inflation due to the present increased stock of money; to the extent that this stock is not spent, inflation can be avoided.

program in these fields. These courses should be open to all those interested in attending, and should also serve the purpose of answering anti-liberal arguments. The courses would be conducted by authorities in the various fields.

The seminars should consist primarily of graduate economics students. These groups should do more intensive work in the various specific fields, concentrating on problems where there are large differences among liberals, as well as research in the refutation of anti-liberal arguments. These seminars should be guided by one or more liberal authorities. At the end of a certain period of time, these seminars may issue joint reports on the results of their investigations. I think it important that membership in these research seminars be restricted to liberals only, since the problems that will arise due to differences among liberals will be serious enough, without having to spend time in the seminar trying to convince the members of the necessity of liberalism. This restriction should not apply to attendance of the lecture courses. The nature of the various problems is outlined below.

Many of the problems and areas of study will undoubtedly be of such wide and complex scope as to require publication in book form of researches conducted by the Foundation staff. Books would provide a necessary complement to the pamphlets, particularly when dealing with problems that cannot be adequately handled by articles of pamphlet size. In these cases, it would seem valuable to have close liaison between the Staff members and the members of the research seminars. Perhaps this could be accomplished by appointing the seminar members as assistant or junior Staff members.

I suggest New York City as the obvious center for the Foundation program and activities. It provides excellent facilities for research as well as a vast potential supply of new Affiliates.

I think that the study group program could be improved by providing more organized guidance from The Foundation. In addition to such informal study groups as now exist, there is a great need for study groups of a more formal nature. For example, the college campuses in New York City are permeated with numerous organization of all shades of left-wing opinion with no liberal groups at all in evidence. For example, on college campuses at present are the following groups, reading from left to right: Marxist Study Group, American Youth for Democracy, Young Citizens Political Action Committee, American Veterans Committee, National Association for Advancement of Colored People, Student League for Industrial Democracy, and the Student Federalists. Now, I am not suggesting that Foundation study groups be conducted along lines of totalitarian discipline as are most of the above. However, The Foundation should endeavor to establish formal study groups on all the college campuses in New York City, providing guest speakers, topics of discussion, etc. Such groups are greatly needed on the college campuses to offset the steady barrage of leftist propaganda to which college students are subjected by organizations such as listed above.

The Foundation states as an aim the establishment of a "periodic journal devoted to economic and political discussions." I think that this activity is so important that three periodic publications will be necessary. One should be a monthly news bulletin. This would be brief, and would inform the Affiliates of The Foundation's activities, plans, and progress. This bulletin should also include a list of formal

study groups organized by The Foundation; these groups should be classified according to general occupation of its members (such as student, housewife, business man, etc.) and should contain the control location of each study group. This would serve to inform Affiliates who are desirous of joining study groups of the existence of groups of similar occupation and location as their own.

A second journal should be bi-monthly (or perhaps quarterly) and devoted to learned articles and discussions of economic liberalism and all its phases. The journal should be on a high level of discussion, similar to the Journal of Political Economy, and should contain book reviews of current books dealing with problems of political economy, as well as critiques of influential books that have been written in the recent past. This journal would be directed primarily toward professional economists, and would furnish a much-needed corrective to the articles and reviews in current economic journals, which only rarely are written from a liberal point of view.

In addition, there is an urgent need for a weekly magazine, directed toward the intelligent layman, that furnishes articles, comments, book reviews, etc. from a liberal viewpoint. Every crackpot left-wing group has its weekly ideological publication, and several have won widespread circulation among intellectuals (viz; New Republic, The Nation, New Leader, New Masses.) Yet there is no liberal weekly of a comparable nature.\* Of course, there are many magazines that have nationwide circulation which, every so often, publish a liberal article. But these articles are submerged in a plethora of trite love stories, and articles on deep-sea fishing, etc. There is urgent need for a liberal counterpart to the New Republic. If such a weekly could not gain a newstand and subscription circulation comparable to the New Republic, the cause of liberalism would indeed be in desperate straits. At least, the effort is well worth making. Perhaps The Foundation could sponsor such a magazine in cooperation with other liberal groups.

I am pleased to see that The Foundation is planning a nation-wide radio program. Radio, an extremely important medium for the influence of public opinion, was silently captured during the war by various leftists and fellow-travellers, in the guise of "commentators." The importance of these "commentators" in the plans of the Left is shown by its agitation when many of these unnecessary commentators were ousted after the end of the war. Even now, liberal points of view seldom get a hearing except in debates, which, when held before a studio audience, often result in liberals being drowned out by an audience "packed" with leftist supporters. All this makes it more urgent for The Foundation to institute such a program. The program should feature talks by a competent economic analyst, or a series of such authorities, presented in a popular fashion.

Before outlining the content of the major problems that The Foundation will have to deal with, I would like to suggest that The Foundation, at the proper time, embark on a large campaign of self-advertising. A full-page advertisement in the New York Times, for example, would be invaluable in informing the public about the existence and the purposes of your organization. I am sure that the number of Affiliates

\* Newsweek and U. S. News, though excellent, do not qualify, since they are mainly devoted to a presentation of the news.

would expand enormously if the public were informed in such a manner.

The contents of The Foundation program should, I believe, be devoted mainly to problems arising from differences of opinion among liberals, and to answers and critiques of statist arguments. The research seminars mentioned above could serve to iron out many of these differences, or, at least, to clarify the issues involved. The following are some of the problems which would greatly repay future study by The Foundation:

### (1) Monopoly

In my many arguments with leftist friends, their favorite point of attack is: "Yes, all you say is very true, assuming a perfectly competitive system. This may have been true in the nineteenth century, but now in the days of monopoly, oligopoly, monopolistic competition, big business and, under present conditions, the government must . . . etc., etc." I think that this problem deserves paramount consideration by The Foundation. If The Foundation can demonstrate the falsity of this line of argument, I believe that an inestimable service will have been done to the cause of liberalism. Corollary to this would be a discussion of: the anti-trust laws and how they should be applied, the problem of price flexibility and price rigidities, the Schumpeter thesis that many "monopolistic restrictions" and deviations from perfect competition are beneficial when looked at in the long run, the so-called "concentration of economic power" (I do not see how any person or group can have economic power except through the aid of the government), and the favorite case studies used by the left, Aluminum Company of America, U. S. Steel, the price of steel rails, the N. Y. milk shed, etc.

I think it particularly important to demonstrate the growth of monopoly due to the active aid of state and federal governments, a point which statist always conveniently overlook. There are many people, however, who seem to be sincere liberals, who side with the left in this discussion, and believe that vigorous anti-trust laws are necessary. For example, the late Professor Henry C. Simons apparently believed that a corporation constituted a monopoly element. It is necessary to thrash out this whole issue of monopoly. My own personal belief is that the cases of monopoly that are important in our economy are the government-sponsored ones. However, a thorough investigation by The Foundation is greatly needed.

### (2) Monetary and Fiscal Policy

Here is another extremely important subject which has probably caused the most dissension among liberals. It is mainly the problems of monetary demand or monetary purchasing power. In the long run, I think it is undoubtedly true that "supply creates its own demand." In the short run, however, and in the course of the cycle, many liberals feel that there are deficiencies and excesses of monetary demand. What should the government do about this, if anything? Should the government attempt to stabilize the price level, and, if so, at what level? What should be the role of the government in relation to the banking system? Where are the merits in the famous controversy between the Currency School and the Banking School? What are the advantages of the gold standard, or the commodity reserve standard? (The gold standard is essentially the fixing of the price of gold. But why

free prices in all commodities and not in gold? This brings us back to the problem of whether or not the price level should be stabilized.) In the field of fiscal policy, the crucial problem is whether the government should pursue a "cyclically balanced budget" policy or an annually balanced budget. On paper, the cyclical proposal seems plausible, except that it raises very dangerous political problems.

This whole problem of monetary demand has caused grave splits among economists who otherwise are united on adherence to the free price system. Thus liberals Graham and Simons lean heavily on the government in stabilizing total demand, although they advocate doing this in accordance with the Rule of Law. This issue is at the core of the interesting debate between the CED and the National Economic Council which you sent to me. Miss Lane and Mr. Hart made many good points in their review of "Jobs and Markets," but the entire problem calls for a thorough, detailed analysis. Simply denouncing the CED program as Nazi does not dispose of this troublesome issue. Personally, I feel that making government responsible for total demand might well prove fatal to the free enterprise system. However, an investigation by the Foundation is definitely necessary.

### (3) Business Cycles.

The problem of business cycles, their nature, causes, etc. should be considered, particularly the problem of the Great Depression. The unemployment and depression of 1929 and the 30's is continually being brought by the leftists as evidence of the "failure" of the free enterprise system.

These are a few of the topics of study for The Foundation. Other useful topics would be: government tax policy, social insurance, labor problems, international economic policy (the merits and demerits of the ITC, Bretton Woods, etc.) critiques of Keynes and Veblen\*, the fascinating Mises-Hayek-Lange dispute on the economics of socialism, and a discussion of the historical roots of liberalism.\*

Also important would be a discussion of proper techniques and methods to convey the message of liberalism to the American people. I think that much profit would be derived from studying the propaganda devices, slogans, etc. of the leftists who have excelled in spreading the collectivist cause.

In concluding this overlong letter, I would like to note that Professor Schumpeter has stated that capitalism, despite the overwhelming arguments in its favor, can not survive because not enough people have faith in the system. Then, I turned to read these words from Mr. Read's *Pattern for Revolt*: "We need patriots who will stand against wrong even though they cannot see the time when right will triumph." As long as Americans exist who can write these stirring words, as long as organizations such as The Foundation exist and thrive, the cause of freedom is not dead.

Very truly yours.

Murray N. Rothbard

\* A critique of Veblen is particularly important, it is astonishing how this clown has won the adoration of the intelligentsia.

\* Valuable would be a critique of Sombart and other historians who constantly talk of capitalism as an organism that is inevitably giving way to socialism—presumably the next stage in the "historical process." ‡

## Vendors *(Continued from page 4)*

reliance foreclosed, they would have no choice but to offer their labor services to local business at bargain-basement wages. These organized business interests are simply being too greedy!

However, there are a couple of other reasons — good ones — for keeping urban streets open and free to sidewalk vendors. First, every society produces a number of individuals who are uncomfortable in organizations, and above all, who don't wish to take orders. Fortunately, America has been blessed with a great number of such folks, which is understandable given the sorts of people who migrated here. The freedom and health of our society depends upon leaving channels within which these people might exercise their independence and express their creativity. Indeed, there are far too few such channels left. For far too many Americans — thanks, in part, to the kind of licensure and other governmental restrictions sought by these organized business interests — the only channels left for expressing creative individualism are found in street crime and hustling. At the time of our struggle for independence, approximately seven out of every ten didn't take orders. Today, over nine out of ten take orders — hardly an improvement in terms in independence and democratic self-determination.

Second, the prevalence of street vendors in a neighborhood enhances the quality of community life in a number of ways. The streets become colorful — even somewhat exotic. In fact, street vendors and open-air markets create the street life which makes so many foreign places charming and exciting escapes from our own busy-but-seldom-alive streets. A street

bazaar atmosphere encourages residents to venture forth more readily from their closed-in existence. Neighbors meet, linger, get to know one another. A community spirit emerges.

Finally, streets filled with lingering folks are simply safer streets. This point seems of paramount importance for most middle to large size urban centers. As is well known, street crime is in good part responsible for the outmigration of the middle class, scared-off shoppers, and the subsequent outmigration of business itself. In fact, those areas which have experienced an influx of so-called young professionals tend to possess a greater degree of street life. In this sense, these organized business interests are perhaps a bit myopic. Safer streets, people-filled streets — that's got to be better for local business in general. True, some shops may have reduced sales due to sidewalk-vendor competition. It is likely, however, that the strollers — enticed in part by the bazaar atmosphere — increase the total business of most shops in the affected locales.

But even if the unlikely were true: that established businesses are harmed in the aggregate by street vendors, it would still not justify government intervention. After all, if the street vendors are winning out then they must be providing the sovereign consumers with what they want. That's capitalism and the game is competition. Often chambers of commerce and boards of trade argue that the street vendors — located on public space — are getting a free ride. Poppycock! If shopkeepers think that street vendors have it so good, they're always free to close up shop and become street vendors themselves. Street vendors mustn't be scapegoated and destroyed for the depressed business conditions under Reaganomics. ‡

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