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THE CASE FOR OPTIMISM

Looking at the state of the country today, it is all too easy for the libertarian to fall prey to a profound pessimism. The crises which libertarians and Austrian economists have been predicting for years are now coming true, in area after area of government activity. A severe inflation combined with the biggest depression since the 1930's; huge and ever-increasing federal deficits; virtual bankruptcy in New York City; the total collapse of American foreign policy; near-bankruptcy in New York City; violence over forced bussing; the crises brought about by Big and growing government are multiplying at every hand. It is easy, then, to despair and to look forward gloomily to a march into total collectivism. In some libertarians, the tendency is therefore to look for a personal cop-out, into one's cave or onto one's lonely island.

But this despair is the result of a linear, mechanistic view of the historical process; it is tragically one-sided, for it leaves out the essential dialectic — the action and reaction — of the historical process, an action-and-reaction that comes to a head in times of pervasive and systemic crisis such as the United States has now entered. By "dialectic", I hasten to add, I am not referring to the Marxian "dialectical materialism", but simply to the vital but complex action-and-reaction, cause-and-effect linkages in human affairs. It is precisely **because** we have entered a mighty systemic crisis, a crisis of the entire U.S. polity and political economy, that the outlook for the future of liberty in the United States has, in my view, never been brighter — at least for well over a century.

For the pervasive American crisis is precisely a crisis of the **breakdown** of statism. We libertarians have been preaching for years that statism, in addition to its gross immorality, **doesn't work,** particularly in an industrial economy such as we have had for over a century. Until the last few years, our pronouncements have been whistling in the wind. No matter how sound or even persuasive our theory, the American economy and polity has **seemed** to be working, and working splendidly. In particular, the great post-World War II boom that only collapsed in 1973-74 seemed to be splendid and unending. In that sort of euphoric atmosphere, very few people were disposed to listen to us or to the libertarian message. Who cared about the growth of the State when, domestically, living standards were increasing, unemployment was low, and, in foreign affairs, America was seemingly the mightiest nation on earth? Unfortunately, especially in a pragmatic world, morality cuts very little ice so long as the system seems to be successful. We knew that the prosperity and the seeming world strength were false and hollow, but no one is disposed to listen to Jeremiah or Cassandra while apparent success has been achieved.

But, in the last few years, and especially since 1973, statism has reached its permanent, systemic crisis; statism is collapsing on every hand, breaking down from its own inherent and grave inner contradictions. We have at last reached what Ludwig von Mises foresaw twenty-five years ago: in his terms, "the exhaustion of the reserve fund." When the modern march toward statism and away from approximate laissez-faire began at the turn of the twentieth century, there was an enormous amount of "fat" in the economy, a fat created by a century of roughly **laissez-faire** capitalism. So great was the fat, or cushion, that government intervention and regulation **seemed** to have no ill effect. The ill effects, libertarians and **laissez-faire** liberals knew full well, were there all right, but they were hidden by the general prosperity created by the previous free economy, and by the remaining preponderance of the free market. And so the general public, intellectuals, businessmen, the media, could blithely hack away at the foundations of our prosperity and our freedom with total disregard or ignorance of the eventual unfortunate consequences.

Furthermore, the two major forms of twentieth-century statism were, at least in form, brand-new. One form was Marxian socialism, which claimed to be able to bring about the classical liberal **ideals** (peace, freedom, prosperity for the mass of the population) through old-style despotic and collectivistic means. Proletarian socialism was, indeed, a brand-new idea and system in world history, it presented what to many people were attractive features, and the Marxist call for their seemingly noble "social experiment" proved to be a seductive one in an age that had abandoned principle for a mindless pragmatism. Why not give it a chance? That chance has now manifestly failed. The other new system was the corporate state, essentially the present system, which began in the Progressive period, and flowered in many forms here and abroad: the Keynesian mixed economy, fascism, corporatism. While we knew that this was only the old discredited mercantilism in a new form, the rest of the world failed to see this; for the new mercantilists were able to cloak their system in the rhetoric of a Tory democracy, a welfare-warfare State seemingly tailored to the requirements of the new industrial era. In short, the neo-mercantilist conservatives, too, abandoned their devotion to old-style monarchy and the established Church, and refurbished their authoritarian statism to mould a new system of corporate industrialism cloaked in a democratic, demagogic form. **This** was the system that soon came to triumph in the United States and in the Western world, and **this** is the system that is now rapidly coming apart at the seams in the U.S. and in Western Europe, riven at long last on the ineluctable but heretofore hidden rock of its momentous inner contradictiosns.

And the great thing is that all over the country, people in all walks of life, among former liberals, intellectuals, the media, the general public, and even among confused and bewildered politicians, are realizing that it is precisely **statism** that is breaking down. In the Great Depression of the 1930's, it was easy for socialists and corporatists to pin the blame for that breakdown on "laissez-faire". Again, we knew that the cause was the inflationist interventionism of the Federal Reserve System and other central banks during the 1920's; but it proved impossible to get this message across to intellectuals and to the general public; for **they** had all been under the impression that we had had a **laissez-faire** system during the 1920's. Hence, **laissez-faire** got tagged with the blame for the Great Depression, and corporatist statism and collectivism could take an

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enormous leap forward into our present system.

But now, except for a few fringe Marxists who persist in blaming "capitalism", it is more and more generally realized that it is the State and statism that are breaking down. Everyone knows, for example, that we have had an enormous amount of statism and government intervention, foreign and domestic, for forty years now; and so it is clear to virtually everyone that **laissez-faire** cannot take the blame **this** time. Furthermore, it is increasingly clear that the major locus of failure is precisely in **government**, in the spheres of uniquely or preponderantly government activity or influence; **government** is now so clearly and manifestly to blame that more and more people, even former advocates of government and the Welfare-Warfare State, are jumping ship and are adopting libertarian or quasi-libertarian ideals.

In short, the "objective" conditions for the ending of statism and the triumph of liberty are now at hand in the overall, systemic crisis of the State; and the "subjective" conditions for victory are now rapidly arriving, in that more and more people, in all walks of life, are seeing and understanding that breakdown and hence shifting rapidly to libertarian positions. The "exhaustion of the reserve fund" means that every time government acts it creates an "instantaneous negative feedback" — so that the evil consequences of government, heretofore masked, are now glaringly evident to all. Statism is breaking down, people are more and more realizing that fact, and hence the triumph of liberty comes ever closer. Instead of being pessimistic, libertarians should rejoice, because the march of history is now ineluctably ours. We have turned the corner. We always knew that, in the **long run**, we would triumph because truth was on our side and because statism **could not** work in the industrial era; but now that long-run is at hand. We are at last entering the "long-run".

And so it was perfectly legitimate for our libertarian forefathers at the turn of the twentieth century, and in the thirties and forties of this century, to despair. They knew, most of them, that in the long run we would probably triumph. But all **they** had to look forward to was decades, maybe generations, of the closing in of the dark night of statism and collectivism. They could only look back nostalgically to the nineteenth century as a Golden Age, and gird themselves to face mounting statism and despair. **They** had every right to despair, our forebears who suffered through the tragic growth of statism and collectivism on every hand, and who saw the devotees of liberty and the free market shrink to a tiny band who could only keep the flame for future generations. They were, as the great Albert Jay Nock despairingly wrote, only "the remnant", though a glorious remnant they were. And so let us hail them and emphathize with their suffering and their courage in holding out against the world: Spencer, Pareto, Tucker, Ortega, Mencken, Nock, and all the others, who each in their way tried to fight a battle that seemed increasingly lost. But let **us** not become so mired in the despair of the past that we fail to recognize that we have turned the corner, and that the prognosis for liberty is now onward and upward into the glorious light of a new dawn. We have indeed reached the light at the end of **our** tunnel.

It is our good fortune that the breakdown of the American State is systemic and pervasive in **every** part: not just in economic policy, but in social and foreign policy as well. And in all these areas, more and more people are increasingly pinning the blame right where it belongs: on **government** itself, not just on "bad" leaders, but on the very system of government intervention. There is, for example, the pervasive and magnificent distrust of government **per se**, the healthy "post-Watergate" climate. Not in generations have the press and the media, and formerly liberal intellectuals, been so cynical about government **per se**. Never again will we have the blind pre-Watergate trust in our secret police: the FBI, CIA, etc. Never again will we regard the once sacred President as a quasi-divine monarch who is fated to lead the world and who can do no wrong. In the wake of Vietnam, never again will we have blind faith in the Wilson-FDR-etc. foreign policy of "collective security" and global meddling. Never again will we have blind faith in **any** politician.

On the economic front, there is of course the inflationary depression, which has put the boots to the arrogant pretensions of Establishment economists, to our faith in the Keynesian way. But not only that: the near bankruptcy of such a revered institution as the Social Security system has now led to a widespread disenchantment with that system. It is increasingly reported that to remain solvent in the future, social security taxes alone will have to rise to 40%, an intolerable level for the average American. The near-bankruptcy of New York City government is a glorious blessing; because it has brought home to everyone the truth that local and state governments cannot keep spending and borrowing indefinitely; that the day of reckoning is at hand, and that, since the public will not tolerate higher tax burdens, government budgets will have to be cut and cut sharply in the years ahead. The public is finally learning that you can't have your cake and eat it, now that the "fat" on the cake (to mix our metaphors) is no longer there. Who would have thought ten, even five years ago that the day would ever come **in our lifetime** when the good, grey New York **Times** would spend a quarter-page debating the merits and demerits of New York City government **defaulting** on its bonds? And the very opposition to default highlights its libertarian merits: for once New York City defaults, not only will no one buy **its** bonds in the future, but all municipal bonds will be discredited hereafter, and all governments will have to cut back.

Furthermore, the breakdown of regulated industries — notably railroads and increasingly the airlines — is bringing home even to liberals that government regulation **itself** is the cause of the problem. More and more, in surprisingly high circles, the reasoned call is coming for the abolition of government regulatory agencies altogether. No less a high personage than Federal Trade Commission chairman Lewis Engman has called repeatedly for the abolition of the ICC, CAB, and other regulatory agencies. Even Senator Kennedy, of all people, is increasingly receptive to the idea of such abolition.

Another hopeful straw in the wind is the fact that Senator Edward Brooke (R., Mass.), heretofore a standard left-liberal, has just adopted the full Austrian theory of our current inflation, blaming our economic crisis on the "malinvestments" (Brooke even uses this uniquely Austrian term) brought about by the boom in inflationary bank credit. Brooke concludes that we should (a) stop monetizing government debt, (b) cut the government budget, and (c) lower taxes on private saving and investment. When someone like Senator Brooke becomes an Austrian economist surely our victory is at hand. (See the May 20 release from Senator Brooke, "Brooke Urges New Economic Policy").

There are also hopeful developments in the sphere of concrete political action. New York State has just repealed its pernicious structure of "fair trade" laws, which for forty years has crippled retail competition and raised prices to consumers. The Federal Trade Commission is moving to abolish all state laws that, at the behest of the organized pharmacists, have prohibited pharmacies from advertising prescription drug prices, and have thereby kept drug prices unconscionably high and crippled conpetition among retail pharmacies. On the civil liberties front, California has just abolished laws prohibiting various sexual activities among consenting adults, at least in private.

Particularly heart-warming is the article by Larry Martz, "Say-Nay Politics", in **Newsweek**, June 9. Martz writes soberly about the new, pervasive mood in America of distrust of government, and of moving to reduce the role of government in American life. Martz writes of a "current stirring in America", a "new mood . . . running strong in the city halls, the statehouses and the talk of both major parties." The mood he identifies as a "mistrust of government itself and a doubt approaching despair that the nation's problems can be solved at all (by government)". Martz estimates that the result "could be a change in American politics as basic as the upheaval of the Depression years . . . forcing both parties to campaign on a new set of issues."

The most prominent embodiment of this new mood is the startling record of the new California governor, Jerry Brown. In his brief term in office, Brown, seemingly a standard left-liberal in the past, has "out-Reaganed Reagan" to embark on a systematic campaign of reducing government activity on every front. Brown has been preaching government austerity, has pared the budget, fired bureaucrats, and has denounced conservatives for inconsistently favoring Big Government in the military sphere, and civil libertarians for advocating Big Government in economics. Brown states that "people feel that things are being done **to** them, not **for** them. Sometimes non-action is better. Sometimes we need fewer programs, less planning, more space to live our lives." Martz writes that, "since taking office in January, Brown has taken a 7 per cent cut in his own salary and asked his Cabinet to follow suit. His social attitudes are even tougher; as one example, he declares flatly that prisons are for punishment, not rehabilitation." (The Szasz line?) On the other hand, Brown took the lead in pushing through the sexual victimless

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From Crank-Up To Crack-Up

By Ludwig von Mises

(Ed. Note: The **Libertarian Forum** is proud to present, for the first time anywhere, an English translation of an article written by the great economist Ludwig von Mises in the depths of the great world depression, in 1933. In his essay, Mises warned against the popular attempts to "reflate" prices back up to 1929 levels, by means of inflationary credit expansion propelled by governments and their controlled banking system. His warning against supposedly "moderate" inflationism to combat depression is, of course, particularly relevant in today's world. Mises' article was entitled, "Der Stand und nachste Zukunft der Konjunkturforschung," ("The Current State and Immediate Future of Trade Cycle Research"), and it appeared in the **Festschrift fur Arthur Spiethoff** (Munchen, Duncker & Kumblot, 1933). The translation is by Joseph R. Stromberg, doctoral candidate in history, University of Florida.)

People now and then have defended the view that an understanding of the causes which induce the trade cycle will lead to a smoothing out of these waves by means of economic measures designed to prevent crises. They would choke the boom off early, in order to mitigate the bust which must inevitably succeed it. Thus greater symmetry would appear in the course of economic life. Phenomena accompanying the boom, regarded by many as unwelcome, would disappear entirely in the future, or at least for the most part. Above all, we could severely limit or entirely avoid the sacrifices, which crisis and crackup exact, and which hardly anyone sees as other than negative.

Many have received this prospect with little joy, believing that the beneficent workings of the boom are worth the price of the losses of the depression. Not everything produced in the boom is the result of error, they say, nor must everything be sacrificed in the crises; there are also permanent fruits of the benign cycle, and economic progress cannot do without them. By contrast, the majority of economic policy advocates have termed the elimination of cyclical fluctuations desirable and necessary. Some have arrived at this position because they believe it will contribute to preserving the capitalist system, of which they approve, if the economy is spared the shudders of crises that recur every couple of years; still others have welcomed the coming age of no crises precisely because they believe that in an economy not endangered by cyclical variations no difficulties would arise from elimination of the entrepreneur, who in their eyes is the dispensable beneficiary of an odd sort of diligence.

All these writers, whether they looked with favor or disfavor on the smoothing out of cyclical waves, were of the opinion that deeper insight into the causes of the changing circumstances would bring us nearer to an age of smaller fluctuations. Were they correct?

Economic theory cannot answer this question. Here is a problem not of theory, but much more of economic policy, or more properly, economic history. In the future, will we again adopt measures which must lead from boom to crackup, even though the circles which give economic policy its direction are today better informed on the effects of the expansion of circulation credit — however mischievous their economic training may otherwise be — than was the case at least on the Continent of Europe, in other centuries?

Today we can consider the circulation credit theory (monetary theory) of the trade cycle as almost the reigning outlook. Even those who advance other doctrines feel constrained to make decisive concessions to the circulation credit theory. All proposals advanced for combatting the present economic crisis follow chains of reasoning which presuppose the circulation credit theory. Some wish to "crank up" the cycle through expansion of the quantity of fiduciary media because they demand a way out of monetary difficulties at any price — even that of a new crisis following the upswing; others forego these stimuli because they want to avoid the false idyll of a prosperity created by credit expansion and the inevitably succeeding crisis. Even the promoters of the "crank up" and pump-priming programs recognize, insofar as they do not belong to the class of completely hopeless dilettantes and ignoramuses, the certainty

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crime repeal. Martz also writes that Brown, "taking a populist leaf from Alabama Gov. George Wallace's book, . . . governs as the gadfly of his own bureaucrats, deriding their attache cases, deploring their jargon and very nearly calling them pointy-headed."

Furthermore, one of our leading libertarians recently had a three-hour conference with Gary Davis, Brown's executive secretary and the leading theoretician of Brown's administration, and was dumfounded to find Davis, on his own and without prompting, going on and on to propound fully libertarian positions and sentiments. Davis's denunciation of government **per se** was startling to our libertarian friend, well-versed and skeptical as he is in the ways of politicians.

In Illinois, as Martz points out, Governor Daniel Walker has been pursuing a similar course for the last three years. Firing bureaucrats, calling for lower taxes, cutting the state budget, Walker has managed to anger all the politicians and vested interests in state government, but has solidified his popularity among the voters. Walker has managed, over intense opposition by the entrenched Illinois bureaucracy, to cut the number of state employees by 10 per cent, and to stop any increase in taxes.

Martz points to the following highly-placed politicians who are adopting variants of this new budget-cutting line: Governors Carey of New York, Apodaca of New Mexico, Longley of Maine, Boren of Oklahoma, and Lamm of Colorado, as well as mayors Bradley of Los Angeles and Young of Detroit. Furthermore, he notes that prominent Atlanta lawyer David Gambrell is now promoting a "Wait-a Damn Minute" movement, "aimed at fending off nearly all government action, with a nostalgic motif from Will Rogers: "There is good news from Washington today. The Congress is deadlocked and can't act."

Martz notes that the new anti-government mood is pervasive, particularly among the broad bulk of the nation's middle class. But, he adds, "the disaffected stretch across the social spectrum, showing increasing resentment not only at the inadequacies of government but at its intrusion into their lives — whether in heavy-handed regulation of business, intervention in a community's choice of school textbooks, forced busing to achieve integration or the maddening imposition of auto seat-belt interlocks (now happily repealed.)" Moreover, he recognizes the solid roots of this new mood in economic reality, particularly the inflationary erosion of the real incomes of the masses, as well as the growing whipsaw burden of the progressive income tax. Martz concludes that "Inflation and the growing burden of the Federal debt are finally breaking up the coalition of interests that has supported most government programs ever since the New Deal. 'As long as the pie was expanding,' said Atlanta educator (Dr. Lisle) Carter, 'the deal was that you could have yours as long as I got mine. But that was very expensive, and the problem is you can't keep expanding the pie indefinitely.' 'We've reached the limit of the national debt,' said June Degnan, a Democratic contributor and fund raiser in San Francisco. 'That's what the liberals have learned. For every new dollar of spending, something is going to have to be cut. It's exactly like dealing with a case of cancer — either amputate or die." Precisely; the recognition of the exhaustion of the reserve fund!

And so, fellow libertarians, we stand at the threshhold of the rollback of statism and the victory of liberty; the forces of statism are in rout at every hand, and libertarianism is popping up everywhere, even in the most surprising and unexpected places. The time for optimism is now; how can we fail to lift up our hearts and plunge with joyous enthusiasm into the ever-growing success of the libertarian cause?

The Bankruptcy Of Liberalism

The monthly magazine **Commentary**, published by the American Jewish Committee, is a distinguished journal of middle-of-the road liberalism. In recent years, **Commentary** has published many trenchant attacks on left-egalitarianism. In its June, 1975 issue, contributing editor Milton Himmelfarb (brother of the eminent historian, the neo-conservative and anti-libertarian Gertrude Himmelfarb), turns his attention to a critique of Libertarianism ("Liberals & Libertarians"). Focussing on Robert Nozick's recent book and mentioning your **Lib. Forum** editor in passing, Himmelfarb, in attempting to combat our "hypertrophy of the principle of liberty", first flounders around a bit in confusion and flagrant disregard for logic. Thus, he quotes Nozick's blistering attack on the typical/centrist defense of outlawing acts of consenting adults committed on public streets: "If the majority may determine the limits on detestable behavior in public (e.g., nudity or fornication or inter-racial handholding), may they, in addition to requiring that no one appear in public without clothing, also require that no one appear in public without wearing a badge certifying that he has contributed **n** per cent of his income to the needy during the year, on the grounds that they find it offensive to look at someone not wearing the badge? . . ." To this keen exercise in logic, Himmelfarb can only throw up his hands in horror and say that "this is the debater speaking, who wants to razzle-dazzle us into believing there is no ethical difference. . . .," etc.

After a few pages of this sort of twaddle, Himmelfarb falls back on his ultimate — and really only — refusation of libertarianism, on which he expounds for the remainder of the article. His final defense is: no less than the religion of Orthodox Judaism. Chiding Nozick and (without naming him, Boston radio commentator Avi Nelson) for being untrue to the Orthodox Jewish tradition (Nelson is even a "rabbi's son" — tsk, tsk!). Himmelfarb goes on to lengthy quotes from the Old Testament and other elements of the Orthodox rite. Himmelfarb, furthermore, thinks he has caught Nozick in a deep contradiction because Nozick repeatedly quotes Jews such as Martin Buber and I. B. Singer. He adds that he expects libertarianism to appeal more to "non-Jewish Jews" because libertarianism "seeks to break the chains of tradition and traditional community."

There is no doubt about it; Himmelfarb is right; the God of Israel, the god responsible (according to his own acolytes) for countless mass murder, injustice, and theocratic despotism, is not a libertarian. Not hardly. But so what? Is the last defense of liberalism really to fall back upon a religion of theocracy, of tribalism, of rank superstition? So much the worse for liberalism; never has the bankruptcy of liberalism been more starkly revealed. Surely few people in the modern world are ready to abandon reason and enlightenment for the swamp of tribal superstition. Yes, Himmelfarb is right that libertarianism "seeks to break the chains of tradition and traditional community" when those chains, as in Orthodox Judaism, clamp fetters of theocracy and tribalism upon the reason and the freedom of the individual person. Yes, Himmelfarb, libertarian radicalism promises that "no more tradition's chains shall bind us"; the dead hand of Orthodox Judaism disappeared with the emancipation of the Jews of the western world after the French Revolution, and no Humpty-Dumptys — even the last remnants of intellectual liberalism — can put it together again. ◘

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of the chain of reasoning of the circulation credit theory. They seek to parry the objections from the standpoint of this theory not at all by disputing its validity, but by hinting that they propose merely a "moderate" or "measured" credit expansion or "creation of money," solely to arrest or weaken the further decline of prices. Even in the expression "re-deflation," eagerly used in this connection of late, there is an admission of the circulation credit theory; that significant errors accompany this admission is of course indisputable.

The credit expansion which begins the boom is always undertaken in the belief that we must overcome stagnation through "easy" money. Some (of us) have fruitlessly sought to characterize this position as invalid. Only unfamiliarity with economic history and the political economic literature of the last generation can lead people to dispute that a permanently lower interest rate has appeared as the ideal of economic policy, just as hardly anyone ever has dared to defend the creditor's view in which the formerly higher interest rate necessarily appears desirable.[1] The desire for easier credit has fostered creation by banks of fiduciary media and has required the continued lowering of the interest rate by them. All measures taken to prevent the "screwing up of bank rates" had as their root the notion that creation of credit for the economy must be made easier. As a rule no one noticed that the lowering of the interest rate through credit expansion must lead to higher prices. For if that had been realized, no one would have sought the policy of easy money.

In the area of price formation public opinion is not as firm as on the question of the interest rate. On this there have always been two opinions: on the one hand, the demand of producers for higher prices, and on the other hand, that of consumers for lower prices. Governments and political parties have declared both demands just — if not exactly at the same time — and have written now one, now the other slogan* on their banners — depending on their voting blocs, for whose favor they strive,** and depending on short-run movements of prices. As prices have risen, they have preached a crusade against the increasingly high cost of living. When prices have fallen, they have declared themselves ready to do everything to assure producers "reasonable" prices again. As a rule, they have acquiesced in measures to reduce prices which could not possibly have obtained the desired result; they have not adopted the only effective measure, the reduction of circulation credit, because they have not wished to drive interest rates back up.[2] On the other hand, in times of falling prices they have found it that much easier to adopt measures of credit expansion, since this expansion could only be realized through an already desired reduction of the interest rate.

Likewise, it is nothing new if today they seek to weaken scruples against circulation credit expansion by claiming that they only wish to reverse the price fall of the last few years or at least to hinder a further decline of prices. Similar arguments were used in the days of the bimetallist movement.

The knowledge that the economic consequences of altering the value of money (leaving aside the effects on the content of liabilities expressed in money terms) can only be ascribed to the fact that the changing value of money does not express itself simultaneously and equally in terms of all goods and services, i. e., that not all prices rise at the same time or to the same degree — this knowledge is hardly still disputed today. People misconstrue, although not as commonly as was still the case a few years ago, the fact that the great length of the present crisis is above all attributable to the way that wages, by means of trade union policy, and some prices, by various supports, have been held constant so that they conform to the downward movement of the prices of most goods, not at all or only with excessive delay. They grant, leaving aside all countervailing political checks, that continuing mass unemployment is a necessary consequence of the attempt, by intervention, to hold wages above the level they would reach on the unhampered market. Even so, they do not draw quite the correct conclusions for economic policy. Nearly all proposals for "cranking up" through credit expansion take it as self-evident that wages will not follow the rising movement of prices until their relative over-valuation has disappeared. People approve all manner of inflationary projects precisely because they do not dare to openly combat the wage policy of the trade unions, favored by public opinion, and its promotion by governments. But as long as the views prevalent today on the formation of wage rates and their implementation through interventionist measures persist, it is not justifiable to assume that in a period of rising prices, money wages can be held constant.

People misunderstand the causal relationships even more when they attach special expectations to proposals for limited credit expansion.

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Recommended Reading: Hayek Interview

Hayek Interview. In the course of his current tour of the United States, Nobel Laureate in economics, and dean of the Austrian School, F. A. Hayek, has given an excellent and hard-hitting interview to the **Gold & Silver Newsletter** (June, 1975). In the interview, Hayek sets forth an uncompromising Austrian explanation of the length of the Great Depression of the 1930's. The significance of this is that Hayek, in the past, had sometimes given hostage to the Keynesian view that at least the **length**, though not the **onset**, of the Depression was caused by a non-Austrian "secondary deflation", to be combatted by Keynesian methods. But in this interview, Hayek is firmly Austrian all the way. Thus, in explaining the length of the Depression of the 1930's, Hayek states:

> "Instead of allowing the market to correct the misdirections of labor and resources that occurred during the inflationary boom, the government believed they could cure the depression by keeping up wages. Hoover began the policy, but Roosevelt greatly expanded it. . . . Policies of government intervention in the economy led internationally to exchange controls, restrictions on foreign trade and other policies that only made matters worse.
>
> The absence of a sound international monetary system was another factor that was responsible for the length of the depression. One of the single most important mistakes that unnecessarily prolonged the depression was Roosevelt's decision to go off the gold standard." (So much for Milton Friedman!)

The **Gold & Silver Newsletter** is available from Monex International, Ltd., 4910 Birch St., Newport Beach, Calif. 92660

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Entrepreneurs are seduced by the plentiful and easier credit available, into busying themselves with ventures which did not appear profitable at the higher interest rate corresponding to the unhampered money market, provided they believe that the lower interest rates will persist indefinitely so that they can base their calculations on them. If it becomes widely known that the creation of extra credit is going to end, people will in due course become concerned and the expected effect will be lacking. No one will undertake new ventures when he knows in advance that they cannot be carried out profitably. The failure of the pump-priming attempts of recent times shows that people, with a view to the pronouncements of the authorities responsible for the policies of the banks of fiduciary media, must have realized that the period of easy money would soon come to an end. One cannot "crank-up" through credit expansion without speaking already of future contraction. That every credit expansion must finally end through suspension of further extra credit issue, and that this suspension must cause a change in the state of business, was known long ago to the economists, and a glance at the daily and weekly press during boom years since the middle of the last century shows that this realization was not limited to a small circle. But speculators, averse to all theory, did not know it and undertook new ventures. When, however, governments proclaim that the expansion of credit can only continue a short while, then (the truth) can escape no one.

People are quite prepared to overrate what has been accomplished in recent years towards understanding the trade cycle, and greatly to underrate the achievements of the Currency School. For practical cyclical policy we have not yet exhausted what can be learned from the doctrines of the old Currency theorists. Up to now, practice has hardly been able to learn anything from modern cycle theory that it could not have already learned from the Currency doctrine. Unfortunately, theory always leaves practice in the lurch just where advice is most urgent: in the understanding of declining prices. The general price decline was considered at all times unwelcome: today the downward rigidity of wages and many other cost factors upset any impartial treatment of the problem, more than previously. It is high time fundamentally to examine the effects of declining money prices and to consider the widespread viewpoint that declining prices and gradual enlargement of the social product, and also of wellbeing, are incompatible. This raises the question of whether it now follows that only inflationary processes make possible progressive capital formation and the shaping of the productive mechanism. As long as naive inflationary theories of progress are held, proposals to induce the boom through credit expansion will always be adopted. The Currency theory has already demonstrated the necessary connection between credit expansion and the course of fluctuations — if only in a chain of reasoning which merely considered credit expansion limited to a single nation and did not know how to judge correctly the case of uniform actions in all states, which, in an age of efforts toward cooperation between the (central) banks issuing fiduciary media are especially important. That, nonetheless, the banks of fiduciary media have always set out on the path of credit expansion is traceable to the view of the benefits of rising prices and their indispensability for "progress," and to the belief that expansion of circulation credit is an appropriate means to keep the interest rate low. The relationship between the issue of fiduciary media and the formation of interest rates is today sufficiently clear, at least adequate to the immediate requirements of economic policy. The problem of falling prices remains to be resolved.

1. It was always so. Public opinion has always sided with debtors. (Cf. Bentham. **Defence of Usury**. Second Edition, London, 1790, p. 102 ff.) The idea has not been given up that the creditor is a rich, idle exploiter, hardheartedly insisting on his paper rights, while the debtor is a poor unfortunate victim of usury — even in this age of stocks and bonds and bank and savings deposits.

*__Losung__, which we translate here as "slogan", has the same spelling as another German word which translates as "droppings."

**__Buhlen__, which we translate as "strive", has a secondary meaning of "have illicit intercourse." Since Mises could have used a number of other German words for "strive" one concludes perforce that he is subtly smiting the enemy hip and thigh. This, of course, is the Cervantean method of attack. Translator's Note.

2. A gross example: the discount policy of the German Reichsbank during the period of inflation. Cf. Graham, **Exchange, Prices and Production in Hyper-Inflation: Germany, 1920-1923** (Princeton, 1930), pp. 65f.

On Income Differences

By William R. Havender
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Recent articles in **Commentary** and other publications that have reviewed Christopher Jencks' new book, "Inequality," have debated what should be done to reduce income disparity. But at least two essential issues have largely been ignored in these discussions. The first is the means by which income inequalities arise. These come about differently in different social systems, and the moral case for their elimination, rather than being self-evident, depends critically upon the social context. In an aristocracy, the wealth of the elite is extracted by force from the common people in a sort of zero sum game, where the income of some must be lost by others. An egalitarian policy in this setting would undoubtedly serve the interests of morality, since the income distribution initially results from compulsion. This is not true of a market economy, where one's income is set by the value placed upon the services one offers to others. Market-determined income is a **return** for rendered benefits, whose magnitude is specified in voluntary negotiation with one's clients. Differences in income reflect different market valuations of these services, and great incomes are generated by supplying others with resources of great value or rarity. Felix Wankel, for example, will probably well be able to keep himself supplied with fine wines, if the extra value of his engine to each of millions of users turns out to be as much as one dollar. Since no one loses, income inequality in this case cannot so routinely be identified with inequity.

But such mutual benefit is on principle a property of every voluntary exchange. Income disparity arising in this context comes about solely from the specialization of labor, and from the fact that certain services are more desired, or are scarcer, than others. That is why it is not clear what is meant by the concept of a "just" distribution of income, as somehow distinct from that which results from the plebiscite of the market; the market's verdict already is very just, in the sense that one's income, and hence, one's claim upon the limited resources of society, is proportional to the value of one's services to others. Similarly off the mark is the assertion that "the people" object to and demand redress of income inequality, when, in fact, income differences originate in the first instance through the people's casting of dollar votes in the marketplace; these differences, therefore, are the manifestation, over time, of the expressed will of the people in this regard. It is obvious, then, that those who oppose this do not speak for the majority.

Because of the voluntary nature of market exchanges, it is exceedingly difficult to justify the intrusion of third parties — such as sociologists, or politicians — into two party transactions, as for example when they attack the income profile which thereby results. Does one have an unconditional right to negotiate the terms under which one will exchange one's services, or not? To argue that third parties do have standing to interfere simply diminishes the extent to which one's work serves one's own purposes, a view more usually associated with fascism than with actual income distribution in America reflects the impact of involuntary or nonmarket forces such as discrimination, fraud or government indulgences. And so it does. But these influences should be vigorously opposed precisely because they do cause a departure from the income allocation which otherwise would correspond to the people's market wishes, and so cannot be used to buttress the much greater departure which the goal of income equality itself represents.

The second curiously omitted yet surpassingly important issue is this: immanent in any proposal to eliminate income inequality is the necessity of creating a much greater inequality of political power. In simple words, the right to determine the disposal of earned income will be transferred from a large number of moderately or very wealthy individuals to the small number of archons momentarily regnant in the offices of government. Whilst the money may well be passed to the poor, the power will remain with "them above" — the State. No matter what public purpose might superficially be served by this transfer, the essence of the political change will be a vast increase in the centralization of social control. And the ensuing inequality of political power — that between rulers and subjects — could not be rendered innocuous by the democratic process, since transitory majorities are as capable as monarchs of arbitrary tyranny against politically weak groups. More than likely, the grand increase in the stakes brought about by this increment in state authority would greatly intensify and embitter the political struggle for power, as has already occurred in those areas where the government has sought to control private economic power through regulatory agencies. This prospect is much more sinister than what, by contrast, appears to be the mild and **diffuse** inequality of power now accompanying existing income differences.

Since this aggrandizement of political inequality manifestly would be the paramount result of a policy of equalizing income, it is baffling that Christopher Jencks would offer, as one of the grounds for his income-flattening proposals a desire to ensure "that everyone exercise the same amount of political power." Exactly the opposite is the likely consequence, should this intellectual frolic ever be adopted. Moreover, this authority must of necessity be used for more than mere redistribution. For, if a person will have the same level of living whatever he does, what will make him work? "If there is no carrot to encourage effort, there will have to be a stick. Enforced egalitarianism also means a slave state. It is a horrible, not an inspiring, vision." (Milton Friedman, **Newsweek**, 2/28/72).

Income differences, then, are inescapable and unobjectionable in a society grounded in personal liberty. Here, as always, the attenuation of our political freedom has been gussied up with an obscuring veil of lofty but illusive objectives. Hence, one must scrutinize this bride, egalitarianism, with assiduous care before closing the purchase.

The Ethics Gap

The scientific revolution of the last decade in the fields of genetics and the life sciences has been more an affirmation of the imagination of science fiction novelists than of the expectations of the average citizen. In less than a decade, the transplanting of vital organs — heart, kidney, lungs, eyes — have become normal medical procedures; genetic engineering, gene therapy, cloning and in vitro fertilization open the way to human control of population and procreation almost beyond our psychic toleration; the breakdown in the traditional Judaeo-Christian reverence for life which prohibited abortion, sterilization, suicide and euthanasia is now manifest in our society, and ethical limitations on future scientific manipulation of our biological, neurological and behavioral systems are weak or non-existent. The scientific revolution has created the need for extensive ethical research to provide some moral framework for the scientists themselves, for physicians, law makers, and individual citizens faced with technological possibilities unknown to previous generations. Just the prolongation of ordinary life span threatens vast economic dislocations in a society unprepared for a population in which those over sixty may come to outnumber those under twenty; the social security system, the insurance industry, the public and private school systems and the various industries that have developed around the high birth rates of post-1945 America face severe economic crisis in the next quarter century. To what extent will the productive work force subsidize the non-productive: the aged, the sick, the incompetent, the insane, the early pensioner? If nothing else interposed itself, inflation alone would create an increasing proportion of the aged population who will be unable financially to support themselves until normal termination of life. Thus, the revolution in the life sciences is

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Burton K. Wheeler, Montana Isolationist, RIP

By Leonard P. Liggio

Several years ago the Merv Griffin Show featured Burton K. Wheeler, former Senator from Montana, and Earl Browder, former general secretary of the Communist Party USA. Both ancients had suffered purges by their respective parties, essentially for the same reason — their commitment to Americanism. Browder, Kansas-born, was in the tradition of native American radicalism, and had joined the CP as the heir to that tradition. His slogan that "communists were as American as apple-pie" brought perhaps millions to join the CP as the partner of Roosevelt's New Deal. However, his pragmatism brought him into conflict with the Marxist ideologues who probably could not stand being associated with the masses that Browder recruited. The hard-line Hegelians came to the fore and Browder was purged for taking the capitalist road. (Philosophically, many American Marxists have come out of the Pragmatic tradition, typified by Dewey's pupil, Sidney Hook, whose amalagm of Pragmatism and Hegelianism, made his positions the most diabolic in modern American philosophy.) Browder noted the anguish of the CP leadership at having to shift the line after the June, 1941 German invasion of the Soviet Union, for before that the Communists were a major force in the American isolationist movement. Wheeler centered his attention on that period because before June, 1941 his opposition to US entry into war was called Communists, while immediately afterwards his opposition was called Fascist; such has been the clear thinking in American politics.

Wheeler had been the leader of the investigation of the Teapot Dome oil grants and of the successful fight of the Senate to block FDR's Supreme Court packing plan in 1937. Thus, he was approached in May 1940 by those military officers who opposed FDR's plans to involve the US in war, to lead the opposition to those plans. In FDR's May 16, 1940 defense message to Congress, he had warned that if Germany was victorious in Europe, it might gain control of Dakar in West Africa and the Cape Verde Islands, which would place it 1500 miles from Brazil from which vital American zones would be attacked and American cities bombed. The military pointed out to Wheeler that German did not have bombers with a range more than 500 miles and that Brazil was further from America than Berlin. FDR's geopolitics was later demolished by Hanson Baldwin, in **United We Stand** (1941).

Wheeler immediately agreed to speak to a mass rally in Washington on June 7, 1940 attacking FDR's geopolitics. On July 1, he addressed the Keep America Out of War Congress in Chicago, and was approached by students from several universities who wanted to organize a national anti-war movement. He sent them to General Robert Wood, chairman of Sears Roebuck, and the America First Committee was formed. However, at the Democratic National Convention which nominated FDR to a Third Term, Wheeler encountered a run around end by FDR. FDR wanted the convention platform to call for forcing everyone in America into a government designated role during the emergency. Heroic Senator David I. Walsh of Mass. denounced it as totalitarianism, and Wheeler led the fight to throw it out. But, the interventionist forces were given direct access to the platform writing through the work of FDR's agent Senator Jimmy Byrnes. Chicago Mayor Edward J. Kelly, one of the heroic but died-out breed of anti-war Chicago mayors, noted that none of his wards would vote for a president running on a war platform. Jimmy Byrnes cornered Kelly in the men's room to pressure him; Wheeler went in and declared he would belt the convention if a war platform were adopted, and Kelly returned to continue his battle against the defense plank. Given the choice between FDR and Willkie, Wheeler voted the Socialist ticket, since Norman Thomas was opposed to war and was to justify Wheeler's faith in the Socialist's anti-war commitment by appearing with Wheeler at America First rallies despite the charge of sentimentalists and liberals that he was sharing the platform with capitalists and businessmen.

Wheeler realized that Secretary of State Hull was anxious to get the US involved in a war against Japan, and fought FDR's scheme for Lend-lease. On "American Forum of the Air" (which along with "Town Meeting of the Air" were important lost parts of American politics; they were dropped because it would no longer be permitted to have two sides to any issues, there was only the official, Liberal Establishment side), Wheeler declared: "The lend-lease program is the New Deal's triple-A foreign policy; it will plow under every fourth American boy." FDR went out of his mind, and Wheeler became the leading speaker, along with Lindbergh, at America First rallies. Joseph P. Kennedy, on returning from the ambassadorship to England, warned Wheeler that Neville Chamberlain had betrayed his Revisionist foreign policy and allowed England to go to war over the Polish boundary dispute with Germany

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The Ethics Gap —

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going to create within a few short years enormous strains upon the economy as it is now structured, and create problems of a social, political, legal and especially ethical dimension almost beyond our imagination.

In 1969 a research center was established in Hastings-on-Hudson, New York, to study the ethical and socio-legal implications of the rapidly developing technologies of the biological, neurological and behavioral life sciences. Under the direction of Daniel Callahan, a distinguished theologian and philosopher, the Institute for Society, Ethics and the Life Sciences began publication of an annual **Bibliography of Society, Ethics and the Life Sciences**, an invaluable tool for anyone interested professionally in the problems raised in the field defined by the title; it also has published a series of special studies, and a 16-page **Hastings Center Report** (six issues annually) which contains specialized bibliographies, brief reports on special issues of concern, and a number of "case studies" followed by debate on the ethical or legal implications. Among the recent topics were: a study on the right to privacy ("The Psychiatrist as a Double Agent"); the use of behavioral modification techniques in prisons; use of the methodone treatment as an alternative to other methods; various incidents involving definitions of medical ethics, fetal research, abuses in sterilization practices; genetic screening; and the social implications of technology.

The Institute does not appear to have any particular ethical bias: it chiefly seeks to stimulate an awareness of the frequently ignored ethical implications of scientific and technological innovation. Thus, while not committed to a systematic libertarian analysis, by placing a stress on ethics and its relationship to the life sciences, the Institute encourages its contributors and audience to confront the human rights of individuals and the full dimensions and demands of the concept of human dignity.

The work of the Institute should be of great interest to all libertarians, and I would highly recommend use of their publications, especially by those interested in legal, medical, ethical or scientific problems. Membership privileges include receipt of all publications. (Students, $10; others $15, Institutions, $25.) Write to: Institute of Society, Ethics, and the Life Sciences, 623 Warburton Avenue, Hastings-on Hudson, New York 10706.

Burton K. Wheeler —

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because of "pressure from the United States."

As Charles Tansill has shown in **Back Door to War** (Regnery), Roosevelt and Hull played a prominent role in bringing about the conflict in Europe in 1939. Wheeler noted that Roosevelt refused to act as mediator to bring an end to hostilities, as he was interested only in English victory at whatever cost to England and America. He criticized Hull for not seriously negotiating with Japan and recognizing its claims for markets and raw materials; Hull increased the pressure on Japan until Japan finally reacted, which satisfied Hull since he felt it was better to fight the Japanese earlier than later.

Wheeler was at the center of a major furor in the fall of 1941. Military friends gave Wheeler the top secret plan for American military intervention in Europe and Africa in order to save England from defeat. Wheeler gave it to that great journalist of the Chicago Tribune, Chesly Manly, who published the original expose of the August 1941 Atlantic Charter meeting of Churchill and FDR. This December 4, 1941 story was an immediate blockbuster, "the greatest scoop in the history of journalism", according to Col. Robert R. McCormick, in whose Washington Times-Herald the article appeared. As the tide of public opposition to the plan rose, the anti-interventionist movement was silenced by the beginning of war on December 7, 1941. Much of the Chesly Manly scoop remains unknown.

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H. L. Mencken

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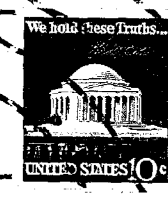

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